BARCLAYS

Equity Research

Energy | U.S. Diversified Natural Gas

7 February 2013

Atmos Energy
Solid Start to Year

1Q Recap: ATO reported EPS of $0.74, in between Barclays' expectation of $0.68 and consensus of $0.77 driven by better year/year results across all segments. Distribution was higher as a portion of costs were allocated into a regulatory asset base while legal expenses were lower, partially offset by a decline in gross profit due to timing changes related to recent rate design modifications in Mid-Tex and West Texas. Increased Regulated Transmission & Storage results were attributable to incremental GRIP revenues while Nonregulated was up due to smaller asset optimization losses, partially offset by a decrease in gas delivery services attributable to warmer weather.

2013 Guidance Reiterated in Range of $2.40-$2.50: At this juncture, the company expects to come in at the higher end of the range and the outlook excludes any potential gain on the pending sale of the Georgia utility, which is set to close in 3Q13. Capital spending plans were also affirmed in the range of $770-$790MM.

Rate Relief/Design Changes at Distribution: The segment is slated to benefit by ~$78MM due to the rate increases approved to date and the regulatory expense deferral treatment allowed for some of the capital spend. There are another 4 cases pending with requested increases of $8MM while the company plans on filing an additional 10-15 cases totaling ~$65MM by year-end. Additionally, rate design changes have resulted in a larger portion of revenue coming from a customer base charge rather than a consumption charge, which will cause some revenues to shift out of the winter periods to shoulder months, but should provide a more stable earnings stream.

Raising Estimates and PT to $40: In light of the solid outcome out of the Mid-Tex rate case that came in above our expectations, we are raising our full-year '13 estimate although a small portion of the benefit will be offset by the accelerated timing of the Georgia utility sale. With ample liquidity and solid balance sheet, we are optimistic that the company will execute on its organic growth strategy and be able to deliver its 8-8.5% rate base CAGR and 6-8% earnings CAGR targets through 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	0.68E	0.74A	0.71A	N/A	N/A	0.80E	21%	N/A
Q2	1.28A	1.46E	1.33E	1.39E	N/A	N/A	1.40E	4%	N/A
Q3	0.32A	0.25E	0.31E	0.22E	N/A	N/A	0.26E	-3%	N/A
Q4	0.11A	0.06E	0.12E	0.03E	N/A	N/A	0.04E	9%	N/A
Year	2.33A	2.44E	2.48E	2.42E	2.55E	2.64E	2.59E	6%	6%
P/E	16.1		15.1			14.2			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

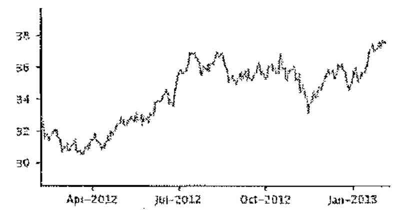
Stock Rating	EQUAL WEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 40.00 raised 11% from USD 36.00

Price (06-Feb-2013)	USD 37.58
Potential Upside/Downside	+6%
Tickers	ATO

Market Cap (USD mn)	3400
Shares Outstanding (mn)	90.46
Free Float (%)	98.09
52 Wk Avg Daily Volume (mn)	0.4
Dividend Yield (%)	3.7
Return on Equity TTM (%)	8.33
Current BVPS (USD)	26.14

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 37.94-30.39



Link to Barclays Live for interactive charting

U.S. Diversified Natural Gas

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U.S. Diversified Natural Gas — Industry View: NEUTRAL

Atmos Energy (ATO)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	688	761	816	879	8.5%
EBIT (adj)	446	520	566	617	11.4%
Pre-tax income (adj)	305	367	390	423	11.5%
Net income (adj)	217	226	240	260	6.3%
EPS (adj) ($)	2.33	2.48	2.64	2.86	7.1%
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	10.6	7.1	7.8	5.9
EBIT (adj) growth (%)	-6.1	16.6	8.7	9.1	7.1
Net income (adj) growth (%)	4.4	4.2	6.3	8.4	5.8
EPS (adj) growth (%)	1.5	6.5	6.3	8.4	5.7
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	80	46	27	-24.7%
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	2,648	2,882	3,100	8.0%
Shareholders' equity	2,359	2,498	2,649	2,818	6.1%
Change in working capital	-17	0	0	0	N/A
Cash flow from operations	587	540	567	605	1.0%
Capital expenditure	672	777	712	732	2.9%
Free cash flow	446	515	559	612	11.1%

Valuation and leverage metrics				
P/E (adj) (x)	16.1	15.1	14.2	13.1
EV/EBITDA (x)	8.5	7.9	7.7	7.4
Dividend yield (%)	3.7	3.7	3.8	3.8
Total debt/capital (%)	51.7	52.2	52.5	52.6

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

Price (06-Feb-2013)	USD 37.58
Price Target	USD 40.00

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.

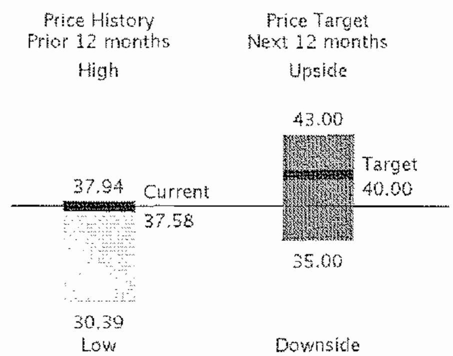
Upside case USD 43.00

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

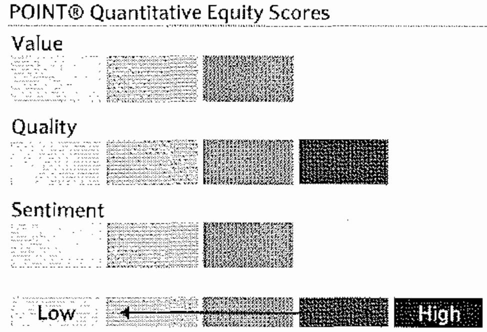
Downside case USD 35.00

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



POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

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

Our new price target of $40 is predicated on the shares trading at 15.0x our '14 EPS estimate of $2.64. Our prior price target of $36 was predicated on shares trading at 14.0x our '14 EPS estimate of $2.55.

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Primary Stocks (Ticker, Date, Price)

Atmos Energy (ATO, 06-Feb-2013, USD 37.58), Equal Weight/Neutral

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U.S. Diversified Natural Gas

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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)

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Southwest Gas Corp. (SWX)	Spectra Energy Corp. (SE)	Targa Resources Corp. (TRGP)
WGL Holdings (WGL)	Williams Cos. (WMB)	

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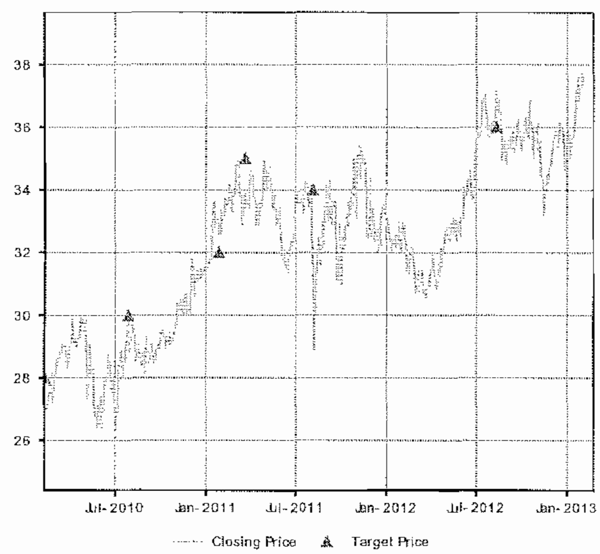
Atmos Energy (ATO)

USD 37.58 (06-Feb-2013)

Stock Rating: **EQUAL WEIGHT**

Industry View: **NEUTRAL**

Rating and Price Target Chart - USD (as of 06-Feb-2013)



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

*The rating for this security remained Equal Weight during the relevant period.

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Valuation Methodology: Our price target of $40 is predicated on shares trading at 15.0x our '14 EPS estimate of $2.64.

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
8 August 2013

Atmos Energy
On Track to Meet Guidance

3Q Recap: ATO reported recurring EPS of $0.42, better than consensus of $0.37. Year/year gains in the segment were attributable to colder weather, rate relief and rate design changes whereby the company now receives a large portion of the revenue through a base charge vs. a consumption fee. Regulated storage and transmission generated $44 million, up 13% over the prior year period due to incremental contribution from GRIP. At Nonregulated, asset optimizations had a number of storage opportunities in 3Q12 that did not repeat this period while realized margins for gas delivery, storage and transportation services reflected a decline in per-unit margins, partially offset by higher throughput. The company declared a $0.35/share dividend.

Rate Cases Provide Tailwind: Since our last note, ATO has continued to make headway on the regulatory front. The company received approval for its GRIP program in Texas which allows for an increase in annual operating income of $26.7 million. YTD, rate approvals representing annual operating income of ~$98 million have been approved. The company also has six cases pending that target an additional ~$36 million of operating income with plans to request for another $10 million by year-end.

Reaffirms EPS Guidance: The company reaffirmed its EPS guidance of $2.45-$2.55. We are currently estimating a full-year number of $2.52. We raise our price target to $46.

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	0.74A	0.74A	0.74A	N/A	N/A	0.71E	21%	N/A
Q2	1.28A	1.33E	1.25A	1.25A	N/A	N/A	1.29E	-2%	N/A
Q3	0.32A	0.31E	0.42A	0.35A	N/A	N/A	0.33E	31%	N/A
Q4	0.11A	0.12E	0.10E	0.14E	N/A	N/A	0.12E	-9%	N/A
Year	2.33A	2.48E	2.52E	2.50E	2.64E	2.68E	2.65E	8%	6%
P/E	19.0		17.5			16.5			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

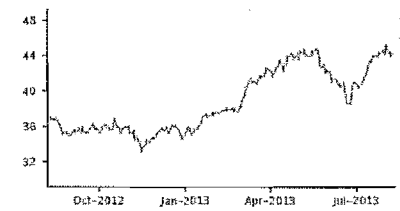
Stock Rating	EQUAL WEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 46.00 raised 15% from USD 40.00

Price (07-Aug-2013)	USD 44.24
Potential Upside/Downside	+4%
Tickers	ATO

Market Cap (USD mn)	4010
Shares Outstanding (mn)	90.64
Free Float (%)	99.00
52 Wk Avg Daily Volume (mn)	0.4
Dividend Yield (%)	3.2
Return on Equity TTM (%)	8.62
Current BVPS (USD)	28.09

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 45.55-32.94



Link to Barclays Live for interactive charting

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

U.S. Diversified Natural Gas | Industry View: NEUTRAL

Atmos Energy (ATO)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2012A	2013E	2014E	2015E	CAGR
EBITDA (adj)	685	736	772	824	6.3%
EBIT (adj)	446	503	529	569	8.5%
Pre-tax income (adj)	305	372	399	417	11.0%
Net income (adj)	217	245	245	257	5.8%
EPS (adj) ($)	2.33	2.52	2.68	2.80	6.4%
Diluted shares (mn)	91.2	91.5	91.6	91.6	0.1%
DPS ($)	1.38	1.40	1.42	1.44	1.4%

Growth rates					Average
EBITDA (adj) growth (%)	-2.6	7.5	4.8	6.8	4.1
EBIT (adj) growth (%)	-6.1	12.7	5.3	7.6	4.9
Net income (adj) growth (%)	4.4	13.2	0.0	4.7	5.6
EPS (adj) growth (%)	1.5	8.2	6.2	4.7	5.1
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	29	38	53	-6.3%
Short and long-term debt	2,527	2,586	2,836	3,086	6.9%
Total liabilities	N/A	N/A	N/A	N/A	N/A
Net debt/(funds)	2,463	2,557	2,798	3,033	7.2%
Shareholders' equity	2,359	2,486	2,642	2,806	6.0%
Change in working capital	-17	-6	0	0	N/A
Cash flow from operations	587	588	561	589	0.1%
Capital expenditure	672	777	712	732	2.9%
Free cash flow	443	491	517	559	8.1%

Valuation and leverage metrics				
P/E (adj) (x)	19.0	17.5	16.5	15.8
EV/EBITDA (x)	9.4	8.9	8.8	8.5
Dividend yield (%)	3.1	3.2	3.2	3.3
Total debt/capital (%)	51.7	51.0	51.8	52.4

Selected operating metrics				
Gas prices ($/mcf) ($)	2.74	3.78	4.00	4.50
Oil prices ($/bbl) ($)	96.02	93.53	92.00	90.00
NGL ($/gal) ($)	1.16	0.94	0.93	0.93
Frac spread ($/gal) ($)	0.92	0.60	0.57	0.53
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

Price (07-Aug-2013)	USD 44.24
Price Target	USD 46.00

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.

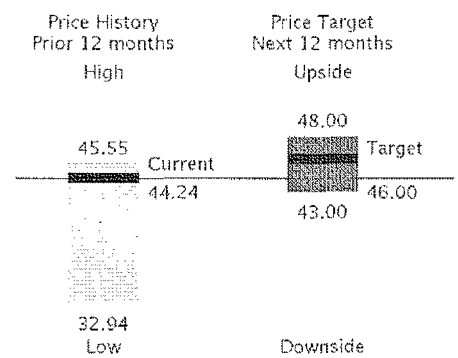
Upside case USD 48.00

Higher natural gas prices or an increase in volatility is likely to improve pricing margins or optimization and storage. Our upside PT of $48 is based on an 18.0x multiple applied to 2014e EPS of $2.68.

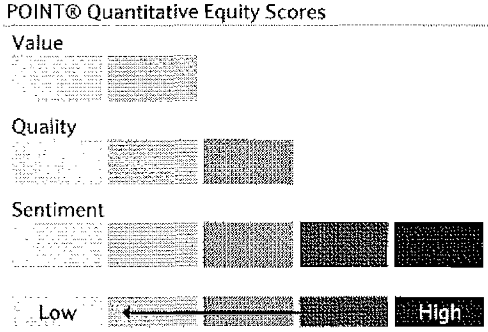
Downside case USD 43.00

In the event that the visibility around rate relief deteriorates, there could be a long lag for recouping investment and growing rate base. Our upside PT of $43 is based on an 16.0x multiple applied to 2014e EPS of $2.68.

Upside/Downside scenarios



POINT® Quantitative Equity Scores



Source: POINT. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, click here.

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

Reports 3Q Results

ATO reported recurring EPS of $0.42, better than our estimate of $0.31 and consensus of $0.37. We note that our recurring EPS number excludes non-recurring and non-cash items including mark-to-market derivative movements which generated a $0.06/share loss and a $0.06/share gain related to the sale of the company's Georgia assets. ATO declared a $0.35/share dividend.

The segment saw gross profit increase by $44.4 million year/year, primarily driven by a previously approved rate changes in the Mid-Tex and West Texas divisions, rate design changes and colder weather. As a reminder, the new rate design increased base charges while decreasing consumption charges, resulting in a shift of margins to the third and fourth quarters of the year. The company expects this factor will contribute an additional $25-$30 million to margins during 4Q. The gain was partially offset by an $11.3 million year/year increase in O&M expenses due to higher employee compensation, line locate activity, and other costs. Regulated storage and transmission generated $44 million of operating income, up 13% over the prior year period, due to incremental contribution tied the GRIP filing that went into effect the beginning of this quarter. At Nonregulated, asset optimizations decreased on a year/year basis as the company had a number of storage opportunities in 3Q12 that did not repeat this period while realized margins for gas delivery, storage and transportation services reflected a decline in per-unit margins, partially offset by higher throughput.

Regulatory Developments

Through 6/30, ATO has received rate relief totaling $98 million of annual operating income, in line with the $90-$110 million range that the company estimated for the year. The largest components of the YTD approvals include $42.6 million at Mid-Tex Cities and $26.7 million from the APT GRIP program.

Looking forward, the company has 6 additional cases pending which represent ~$36 million of operating income with plans to request another ~$10 million by year-end. None of these cases are expected to become effective before the end of the company's current fiscal year.

Completes Sale of Georgia Assets

ATO completed the sale of substantially all of its natural gas distribution and related nonregulated assets in Georgia. The company booked an after-tax gain on the sale of $5.3 million. ATO received $153 million of cash proceeds, which should help to offset the increase in capex this year related to the ongoing APT Pipeline projects in Texas.

Raising Price Target to $46

Due to multiple expansion in the space, we raise our 12-month price target to $46, based on 2014e EPS of $2.68 and shares trading at a multiple of 17.0x. Our prior price target of $40 was predicated on 2014e EPS of $2.64 and a 15.0x multiple.

ANALYST(S) CERTIFICATION(S)

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Primary Stocks (Ticker, Date, Price)

Atmos Energy (ATO, 07-Aug-2013, USD 44.24), Equal Weight/Neutral, C/D/J/L/O

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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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U.S. Diversified Natural Gas

AGL Resources Inc. (GAS)	Atmos Energy (ATO)	Cheniere Energy (LNG)
Enbridge Inc. (ENB.TO)	Energen Corp. (EGN)	EQT Corporation (EQT)
Kinder Morgan Inc. (KMI)	Macquarie Infrastructure Co., Llc. (MIC)	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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A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

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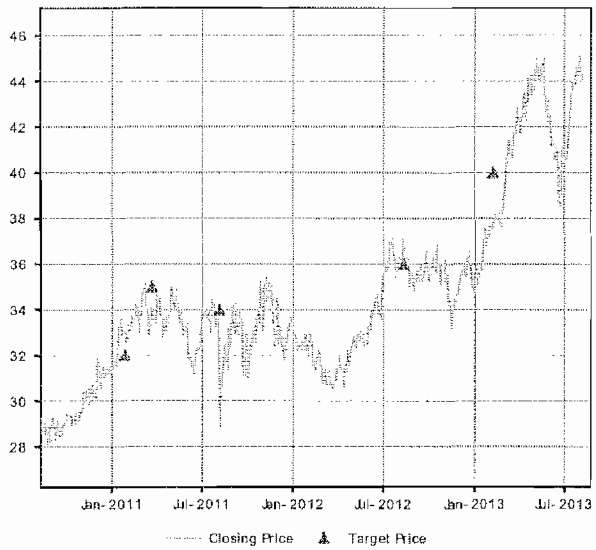
Atmos Energy (ATO)

USD 44.24 (07-Aug-2013)

Stock Rating: **EQUAL WEIGHT**

Industry View: **NEUTRAL**

Rating and Price Target Chart - USD (as of 07-Aug-2013)



Link to Barclays Live for interactive charting

Currency=USD

Date	Closing Price	Rating *	Price Target
07-Feb-2013	37.73		40.00
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

*The rating for this security remained Equal Weight during the relevant period.

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Valuation Methodology: Our price target of $46 is predicated on shares trading at 17.0x our '14 EPS estimate of $2.68.

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

Price Objective Change

BUY

Equity | United States | Gas Utilities
07 February 2013

Solid start to FY13; boost PO to $40 and reiterate Buy

Bank of America Merrill Lynch

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Good 1Q13, high end of '13 guidance emphasized

On Wednesday after market close, ATO reported FY1Q13 adjusted diluted EPS of $0.74 versus the BofAML estimate of $0.80 and consensus of $0.77. Atmos Pipeline Texas results benefitted from GRIP filings approved in 2012 although Distribution results were impacted by recent rate design changes. ATO reiterated its FY13 diluted EPS guidance range of $2.40-2.50 and pointed to the higher end of the guidance range, which is consistent with the BofAML estimate of $2.50. ATO's 1Q13 declared dividend of $0.35 ($1.40 annualized) represents a 1.4% increase over 4Q12/1Q12, respectively, in-line with the BofAML estimate.

Updating '13 ests for GA sale, Mid-Tex rate design changes

ATO now expects its pending $141mn sale of substantially all of its gas distribution assets located in Georgia to close in FY3Q13. We view this transaction positively as it further simplifies ATO's asset base. We are slightly adjusting quarterly 2013 estimates to incorporate asset sale timing as well as Mid-Tex rate design changes effective 1 January 2013. These rate design changes are expected to reduce the seasonality of ATO's earnings stream and cause a shift in margins out of the first and second fiscal quarters and into the third and fourth fiscal quarters.

PO to $40; reiterate Buy on attractive rate base growth

We are maintaining full-year 2013/14 EPS estimates and introduce a 2015 EPS estimate of $2.80. We raise our PO to $40 (from $38) based on a ~14x multiple on our 2015 EPS estimate. 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. ATO plans to spend close to $800mn annually through 2016 and ATO's relatively progressive regulatory regime should reduce the lag in rate recovery from planned capital spending. We also view recently announced asset sales as proof that ATO's acquisitive days are behind it, which is also supportive of a higher valuation, in our view.

Stock Data

Price	US$37.73
Price Objective	US$40.00
Date Established	7-Feb-2013
Investment Opinion	A-1-7
Volatility Risk	LOW
52-Week Range	US$30.39-37.94
Mrkt Val / Shares Out (mn)	US$3,415 / 90.5
BofAML Ticker / Exchange	ATO / NYS
Bloomberg / Reuters	ATO US / ATO.N
ROE (2013E)	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.	38.00	40.00
2015E EPS	NA	2.80
2013E EBITDA (m)	757.8	770.2
2014E EBITDA (m)	791.4	809.8
2015E EBITDA (m)	NA	835.1

Estimates (Sep)

(US$)	2011A	2012A	2013E	2014E	2015E
EPS	2.31	2.36	2.50	2.65	2.80
GAAP EPS	2.27	2.10	2.71	2.65	2.80
EPS Change (YoY)	5.0%	2.2%	5.9%	6.0%	5.7%
Consensus EPS (Bloomberg)			2.42	2.59	2.76
DPS	1.36	1.38	1.40	1.42	1.44

Valuation (Sep)

	2011A	2012A	2013E	2014E	2015E
P/E	16.3x	16.0x	15.1x	14.2x	13.5x
GAAP P/E	16.6x	18.0x	13.9x	14.2x	13.5x
Dividend Yield	3.6%	3.7%	3.7%	3.8%	3.8%
EV / EBITDA*	11.9x	12.3x	10.7x	10.1x	9.8x
Free Cash Flow Yield*	-1.2%	-4.3%	-9.2%	3.5%	4.0%

* For full definitions of *iQmethod*SM measures, see page 6.

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iQprofile℠ Atmos Energy

iQmethod℠ – Bus Performance*

(US$ Millions)	2011A	2012A	2013E	2014E	2015E
Return on Capital Employed	4.4%	4.4%	4.6%	4.7%	4.7%
Return on Equity	9.3%	9.1%	9.1%	9.2%	9.3%
Operating Margin	10.2%	13.0%	16.7%	15.7%	15.1%
Free Cash Flow	(40)	(146)	(316)	119	138

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2011A	2012A	2013E	2014E	2015E
Cash Realization Ratio	2.8x	2.7x	2.1x	2.5x	2.4x
Asset Replacement Ratio	2.7x	3.1x	3.2x	1.9x	1.9x
Tax Rate	36.4%	33.8%	37.5%	37.8%	37.8%
Net Debt-to-Equity Ratio	101.2%	104.4%	111.1%	106.7%	101.6%
Interest Cover	2.9x	3.2x	3.6x	3.2x	3.3x

Income Statement Data (Sep)

(US$ Millions)	2011A	2012A	2013E	2014E	2015E
Sales	4,348	3,438	3,131	3,567	3,877
% Change	-9.2%	-20.9%	-8.9%	13.9%	8.7%
Gross Profit	1,327	1,324	1,432	1,486	1,526
% Change	-2.8%	-0.3%	8.2%	3.8%	2.7%
EBITDA	690	669	770	810	835
% Change	-2.2%	-3.1%	15.1%	5.1%	3.1%
Net Interest & Other Income	(151)	(141)	(146)	(176)	(180)
Net Income (Adjusted)	**210**	**215**	**227**	**240**	**253**
% Change	**3.2%**	**2.5%**	**5.7%**	**5.8%**	**5.4%**

Free Cash Flow Data (Sep)

(US$ Millions)	2011A	2012A	2013E	2014E	2015E
Net Income from Cont Operations (GAAP)	206	191	246	240	253
Depreciation & Amortization	227	238	245	248	248
Change in Working Capital	(26)	(3)	(160)	0	0
Deferred Taxation Charge	117	104	139	111	117
Other Adjustments, Net	59	57	4	0	0
Capital Expenditure	(623)	(733)	(790)	(480)	(480)
Free Cash Flow	**-40**	**-146**	**-316**	**119**	**138**
% Change	**NM**	**-263.8%**	**-116.2%**	**NM**	**16.5%**

Balance Sheet Data (Sep)

(US$ Millions)	2011A	2012A	2013E	2014E	2015E
Cash & Equivalents	131	64	40	30	38
Trade Receivables	273	235	501	501	501
Other Current Assets	606	529	539	539	539
Property, Plant & Equipment	5,148	5,476	5,869	6,101	6,334
Other Non-Current Assets	1,124	1,192	1,204	1,204	1,204
Total Assets	**7,283**	**7,496**	**8,153**	**8,376**	**8,616**
Short-Term Debt	209	571	856	856	856
Other Current Liabilities	659	705	814	814	814
Long-Term Debt	2,206	1,956	1,956	1,956	1,956
Other Non-Current Liabilities	1,954	1,904	2,032	2,143	2,260
Total Liabilities	**5,027**	**5,136**	**5,659**	**5,769**	**5,887**
Total Equity	**2,255**	**2,359**	**2,495**	**2,607**	**2,730**
Total Equity & Liabilities	**7,283**	**7,496**	**8,153**	**8,376**	**8,616**

* 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	456,792

Quarterly Earnings Estimates

	2012	2013
Q1	0.61A	0.74A
Q2	1.28A	0.84E
Q3	0.32A	NA
Q4	0.16A	NA

Exhibit 1: ATO 1Q13 earnings summary

Earnings Summary
($ in millions, except for per unit data)

	1Q13			1Q12	
	Expected	Actual	Diff.		Comments
Natural Gas Distribution	118.0	109.1	(8.9)	108.4	Lower due to recent rate design changes
Regulated Transmission and Storage	30.7	32.0	1.3	28.4	Benefitted from GRIP filings
Nonregulated	8.7	13.8	5.1	7.7	Impacted by warmer weather
Eliminations	0.0	0.0	0.0	0.0	
Operating Income	**157.4**	**154.9**	**(2.4)**	**144.4**	
Misc. income (expense)	0.4	0.7	0.3	(1.9)	
Interest on LTD	40.4	30.5	(9.9)	35.4	
Earnings Before Taxes	**117.3**	**125.1**	**7.8**	**107.1**	
Income Taxes	46.0	47.8	1.8	41.3	
Earnings Before Extraordinary Items	**72.1**	**77.3**	**5.3**	**65.8**	
Extraordinary Gain / (Loss) (net of tax)	0.0	3.1	3.1	2.7	Discontinued ops associated with GA
GAAP Net Earnings to Common Stock	**72.1**	**80.5**	**8.4**	**68.5**	
Adjustments	0.0	(13.0)	(13.0)	(13.0)	MTM adjustments
Adjusted Net Income	**72.1**	**67.5**	**(4.6)**	**55.5**	
Earnings per share (GAAP)					
Diluted	$0.80	$0.88	$0.08	$0.75	
Earnings per share (Recurring)					
Diluted	$0.80	$0.74	($0.06)	$0.61	
Weighted average shares outstanding					
Diluted	90.3	91.3	1.0	90.5	
Cash dividends declared per share	$0.35	$0.35	$0.00	$0.35	

Source: Company reports, BofA Merrill Lynch Global Research analysis

Price objective basis & risk

Atmos Energy (ATO)

Our $40 PO is largely based on a targeted 14x 2015E 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 2015 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				
	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
	Delek Logistics	DKL	DKL US	Cathleen King
	Eagle Rock Energy Partners, L.P.	EROC	EROC 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
	EQT Midstream Partners LP	EQM	EQM US	Gabe Moreen
	Exterran	EXLP	EXLP US	Gabe Moreen

US - Natural Gas Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	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
	MPLX LP	MPLX	MPLX US	Cathleen King
	Plains AA	PAA	PAA US	Gabe Moreen
	Regency Energy Partners LP	RGP	RGP US	Gabe Moreen
	Spectra Energy	SE	SE US	Gabe Moreen
	Summit Midstream Partners, LP	SMLP	SMLP US	Gabe Moreen
	Sunoco Logistics	SXL	SXL US	Gabe Moreen
	Susser Petroleum Partners LP	SUSP	SUSP US	Gabe Moreen
	Targa Resources	NGLS	NGLS 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
	American Midstream LP	AMID	AMID US	Gabe Moreen
	CorEnergy Infrastructure Trust, Inc	CORR	CORR 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
	Global Partners LP	GLP	GLP 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
	Oiltanking Partners LP	OILT	OILT US	Cathleen King
	PAA Natural Gas Storage	PNG	PNG US	Gabe Moreen
	PVR Partners, L.P.	PVR	PVR US	Gabe Moreen
	Suburban Propane Partners L.P.	SPH	SPH US	Gabe Moreen
	Targa Resources Corp.	TRGP	TRGP 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
	Holly Energy Par	HEP	HEP US	Gabe Moreen
	Kayne Anderson Energy Development Co.	KED	KED 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
	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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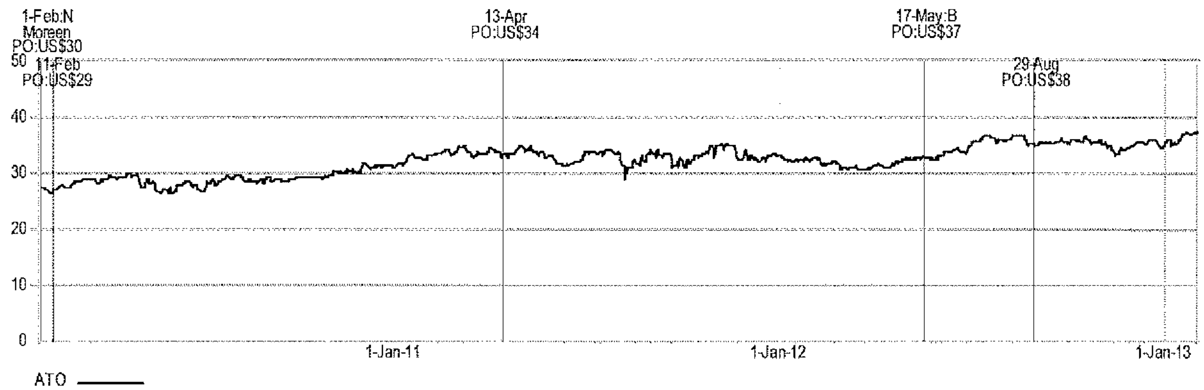
ATO Price Chart



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, 2013 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 01 Jan 2013)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	66	48.53%	Buy	35	61.40%
Neutral	26	19.12%	Neutral	17	73.91%
Sell	44	32.35%	Sell	25	64.10%

Investment Rating Distribution: Global Group (as of 01 Jan 2013)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1961	49.47%	Buy	1299	71.85%
Neutral	1013	25.55%	Neutral	640	70.18%
Sell	990	24.97%	Sell	543	59.15%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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Atmos Energy

Price Objective Change

BUY

Equity | United States | Gas Utilities
30 May 2013

Rate base growth remains attractive; PO to $45

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Revisiting estimates to incorporate recent developments

We are revisiting estimates to incorporate fiscal 2Q13 results, updated 2013 guidance, and other developments. On 2 May 2013, ATO reported fiscal 2Q13 adjusted diluted EPS of $1.27 compared to the consensus estimate of $1.25 per share. Atmos Pipeline Texas continues to be supported by GRIP filings approved in 2012 while Distribution results were impacted by recent rate design changes. ATO's 3Q13 declared dividend of $0.35/share ($1.40 annualized) represents a 0.0/1.4% increase over 2Q13/3Q12, respectively, in-line with the BofAML estimate.

2013 guidance bump; we increase 2014/15 EPS estimates

In conjunction with reporting 2Q13 results, ATO raised adjusted EPS guidance to a range of $2.45-2.55 per share (from $2.40-2.50). We note guidance assumes: 1) the higher end of the previously announced $90-110mn of approved increases in operating income from rate execution, 2) $56-63mn margin contribution from non-regulated businesses, 3) $4-6/Mcf average gas cost, and 4) excludes a $0.07 per share benefit from the sale of distribution assets in GA. Despite higher guidance, our 2013E EPS of $2.50 remains unchanged. However, we increase our 2014/15E EPS to $2.70/2.90 (from $2.65/2.80), respectively, driven by improved margin outlook from rate execution in ATO's regulated businesses.

Rate base growth remains attractive; Increase PO to $45

We raise our PO to $45 (from $40) based on a 15.5x multiple on our 2015 EPS estimate. ATO continues to trade at a slight discount to peers, but this valuation gap should continue to narrow as ATO executes on its plans for rate base growth at an 8-8.5% CAGR through 2016. We maintain a constructive view on ATO given its relatively progressive regulatory regime, which should reduce the lag in rate recovery from planned capital spending and recent asset sales should help simplify its structure. However, our enthusiasm for ATO is tempered by current gas utility sector valuations above historical averages, where we have difficulty seeing significant multiple expansion for the sector. We note a key risk is a continuation of recent underperformance by the utility sector from interest rate fears.

Stock Data

Price	US$42.42
Price Objective	US$45.00
Date Established	30-May-2013
Investment Opinion	A-1-7
Volatility Risk	LOW
52-Week Range	US$32.44-45.12
Mrkt Val / Shares Out (mn)	US$3,840 / 90.5
BofAML Ticker / Exchange	ATO / NYS
Bloomberg / Reuters	ATO US / ATO.N
ROE (2013E)	9.0%
Total Dbt to Cap (Mar-2013A)	49.0%
Est. 5-Yr EPS / DPS Growth	6.0% / 1.5%

Key Changes

(US$)	Previous	Current
Price Obj.	40.00	45.00
2014E EPS	2.65	2.70
2015E EPS	2.80	2.90
2013E EBITDA (m)	770.2	753.0
2014E EBITDA (m)	809.8	812.4
2015E EBITDA (m)	835.1	852.5

Estimates (Sep)

(US$)	2011A	2012A	2013E	2014E	2015E
EPS	2.31	2.36	2.50	2.70	2.90
GAAP EPS	2.27	2.10	2.71	2.70	2.90
EPS Change (YoY)	5.0%	2.2%	5.9%	8.0%	7.4%
Consensus EPS (Bloomberg)			2.51	2.65	2.80
DPS	1.36	1.38	1.40	1.42	1.44

Valuation (Sep)

	2011A	2012A	2013E	2014E	2015E
P/E	18.4x	18.0x	17.0x	15.7x	14.6x
GAAP P/E	18.7x	20.2x	15.7x	15.7x	14.6x
Dividend Yield	3.2%	3.3%	3.3%	3.3%	3.4%
EV / EBITDA*	12.5x	12.9x	11.5x	10.6x	10.1x
Free Cash Flow Yield*	-1.0%	-3.8%	-5.0%	3.3%	4.0%

* For full definitions of *iQmethod*SM measures, see page 56.

Refer to important disclosures on page 6 to 8. Analyst Certification on Page 3. Price Objective Basis/Risk on page 3. Link to Definitions on page 3. 11261402

iQprofile℠ Atmos Energy

iQmethod℠ – Bus Performance*

(US$ Millions)	2011A	2012A	2013E	2014E	2015E
Return on Capital Employed	4.4%	4.4%	4.5%	4.6%	4.8%
Return on Equity	9.3%	9.1%	9.0%	9.3%	9.5%
Operating Margin	10.2%	13.0%	15.4%	15.8%	15.1%
Free Cash Flow	(40)	(146)	(193)	128	154

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2011A	2012A	2013E	2014E	2015E
Cash Realization Ratio	2.8x	2.7x	2.6x	2.5x	2.4x
Asset Replacement Ratio	2.7x	3.1x	3.2x	1.9x	1.9x
Tax Rate	36.4%	33.8%	37.2%	38.2%	38.1%
Net Debt-to-Equity Ratio	101.2%	104.4%	107.7%	103.0%	97.2%
Interest Cover	2.9x	3.2x	3.7x	3.4x	3.4x

Income Statement Data (Sep)

(US$ Millions)	2011A	2012A	2013E	2014E	2015E
Sales	4,348	3,438	3,293	3,538	3,975
% Change	-9.2%	-20.9%	-4.2%	7.4%	12.4%
Gross Profit	1,327	1,324	1,460	1,506	1,554
% Change	-2.8%	-0.3%	10.3%	3.2%	3.2%
EBITDA	690	669	753	812	853
% Change	-2.2%	-3.1%	12.5%	7.9%	4.9%
Net Interest & Other Income	(151)	(141)	(138)	(164)	(175)
Net Income (Adjusted)	**210**	**215**	**228**	**245**	**263**
% Change	**3.2%**	**2.5%**	**6.1%**	**7.4%**	**7.4%**

Free Cash Flow Data (Sep)

(US$ Millions)	2011A	2012A	2013E	2014E	2015E
Net Income from Cont Operations (GAAP)	206	191	247	245	263
Depreciation & Amortization	227	238	243	252	252
Change in Working Capital	(26)	(3)	(52)	0	0
Deferred Taxation Charge	117	104	140	111	119
Other Adjustments, Net	59	57	8	0	0
Capital Expenditure	(623)	(733)	(779)	(480)	(480)
Free Cash Flow	**-40**	**-146**	**-193**	**128**	**154**
% Change	**NM**	**-263.8%**	**-32.5%**	**NM**	**20.6%**

Balance Sheet Data (Sep)

(US$ Millions)	2011A	2012A	2013E	2014E	2015E
Cash & Equivalents	131	64	13	22	46
Trade Receivables	273	235	486	486	486
Other Current Assets	606	529	451	451	451
Property, Plant & Equipment	5,148	5,476	5,833	6,061	6,289
Other Non-Current Assets	1,124	1,192	1,241	1,241	1,241
Total Assets	**7,283**	**7,496**	**8,024**	**8,261**	**8,513**
Short-Term Debt	209	571	283	293	293
Other Current Liabilities	659	705	694	694	694
Long-Term Debt	2,206	1,956	2,456	2,456	2,456
Other Non-Current Liabilities	1,954	1,904	2,061	2,172	2,291
Total Liabilities	**5,027**	**5,136**	**5,493**	**5,615**	**5,734**
Total Equity	**2,255**	**2,359**	**2,530**	**2,647**	**2,779**
Total Equity & Liabilities	**7,283**	**7,496**	**8,024**	**8,261**	**8,513**

* For full definitions of *iQmethod*℠ measures, see page 56.

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	465,364

Quarterly Earnings Estimates

	2012	2013
Q1	0.61A	0.74A
Q2	1.28A	1.27A
Q3	0.32A	0.42E
Q4	0.16A	NA

Price objective basis & risk

Atmos Energy (ATO)

Our $45 PO is largely based on a targeted 15.5x 2015E 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 2015 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				
	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
	Delek Logistics	DKL	DKL US	Gabe Moreen
	Eagle Rock Energy Partners, L.P.	EROC	EROC 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
	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
	KNOT Offshore Partners, LP	KNOP	KNOP US	Gabe Moreen
	Markwest Energy Partners L.P.	MWE	MWE US	Gabe Moreen
	MPLX LP	MPLX	MPLX US	Gabe Moreen
	Plains AA	PAA	PAA US	Gabe Moreen
	Spectra Energy	SE	SE US	Gabe Moreen
	Suburban Propane Partners L.P.	SPH	SPH US	Gabe Moreen
	Summit Midstream Partners, LP	SMLP	SMLP US	Gabe Moreen
	Sunoco Logistics	SXL	SXL US	Gabe Moreen
	Susser Petroleum Partners LP	SUSP	SUSP 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
	TC PipeLines LP	TCP	TCP US	Gabe Moreen
	Teekay Offshore	TOO	TOO US	Gabe Moreen
	Western Gas Partners, LP	WES	WES US	Gabe Moreen
NEUTRAL				
	AGL Resources Inc.	GAS	GAS US	Gabe Moreen
	American Midstream LP	AMID	AMID US	Gabe Moreen
	CorEnergy Infrastructure Trust, Inc	CORR	CORR 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
	Global Partners LP	GLP	GLP 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
	Oiltanking Partners LP	OILT	OILT US	Gabe Moreen
	PVR Partners, L.P.	PVR	PVR US	Gabe Moreen
	Regency Energy Partners LP	RGP	RGP US	Gabe Moreen
	Targa Resources Corp.	TRGP	TRGP US	Gabe Moreen
	Tesoro Logistics LP	TLLP	TLLP US	Gabe Moreen
	TransMontaigne Partners L.P.	TLP	TLP US	Gabe Moreen
	Vectren Corp	VVC	VVC US	Gabe Moreen
	Williams Partner	WPZ	WPZ US	Gabe Moreen
UNDERPERFORM				
	AmeriGas Partners L.P.	APU	APU US	Gabe Moreen
	Boardwalk Pipeline	BWP	BWP US	Gabe Moreen
	El Paso Pipeline Partners, L.P.	EPB	EPB US	Gabe Moreen
	Ferrellgas Partners L.P.	FGP	FGP US	Gabe Moreen
	Holly Energy Par	HEP	HEP US	Gabe Moreen
	Kayne Anderson Energy Development Co.	KED	KED 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
	PAA Natural Gas Storage	PNG	PNG 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
	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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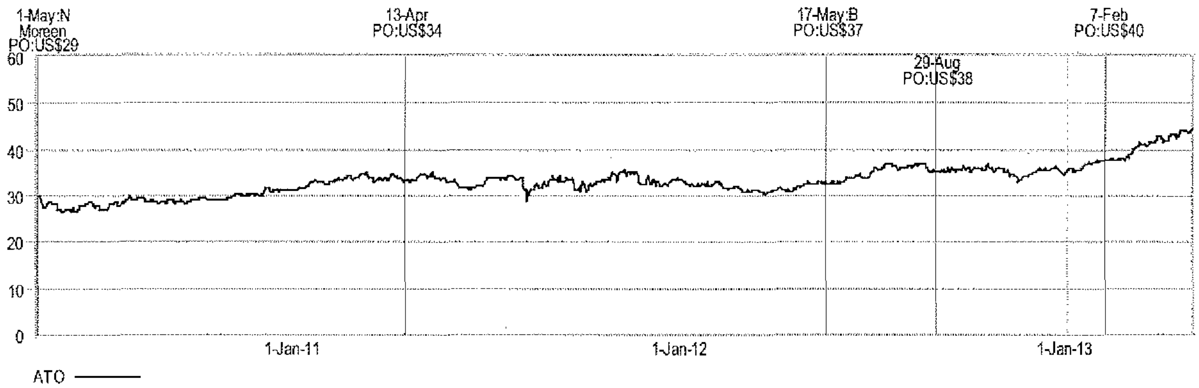
ATO Price Chart



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 31 Mar 2013)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	52	48.15%	Buy	36	69.23%
Neutral	25	23.15%	Neutral	18	72.00%
Sell	31	28.70%	Sell	25	80.65%

Investment Rating Distribution: Global Group (as of 31 Mar 2013)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1677	49.32%	Buy	1226	73.11%
Neutral	826	24.29%	Neutral	600	72.64%
Sell	897	26.38%	Sell	570	63.55%

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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	$\geq$ 10%	$\leq$ 70%
Neutral	$\geq$ 0%	$\leq$ 30%
Underperform	N/A	$\geq$ 20%

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Equities

8 February 2013 | 9 pages

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Atmos Energy Corp (ATO)

Guidance at High End; Rate Cases & Capex Driving Growth

■ Company Update

- **EPS** – ATO reported adjusted fiscal 1Q EPS of $0.74 per share, below our estimate of $0.79, and below consensus of $0.85 due to a new rate design (Mid TX) that shifts earnings to the "shoulder" months. Taking into account this shift in earnings, F1Q benefited from cost containment, higher earnings tied to regulated spending programs, better optimization margins (non-regulated) and reduced interest expenses. Management expects fiscal 2013 EPS to come in at the higher end of guidance ($2.40-$2.50). The FY 2013 dividend was raised to $1.40 per share.

- **Gas Utility (Below)** – EBIT was $109 mm, below our estimate of $117 mm due to the Mid-Tex rate case that shifts earnings towards the shoulder months. Y-o-Y, ATO reduced O&M costs by ~10%. In Dec/12, the RRC authorized a rate increase of $43 mm ($30mm in margin and $13mm reduction in D&A) with an authorized ROE of 10.5%, effective at the start of 2013. New rates will raise the fixed charge component and lower the volumetric component of rates, resulting in lower margins in 1H13 vs. last year, but offset later in the year when demand is typically lower. ATO has filed 4 rate cases totaling $8 mm, and has a backlog of 10-15 additional rate cases totaling $60-$70 mm, the majority of which will be recovered through GRIP or rate recovery mechanisms. Capex spending at the LDC was up 23% Y-o-Y.

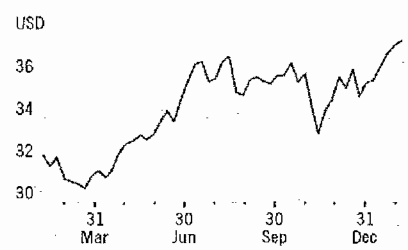
- **Regulated Transmission (Above)** – EBIT was $32 mm, ahead of our estimate of $28 mm on increased revenues tied to GRIP filings. Capex spending was more the doubled over the same period last year.

- **Non-regulated (Inline)** – ATO reported EBIT of $8 mm inline with our expectations as optimization margins increased due to smaller losses.

- **Recommendation** – We maintain our Neutral rating & $39 target price. ATO is expected to spend $780 mm in 2013, with more than 70% being deployed across its TX footprint and eligible for recovery through automatic rate mechanisms. Rate base and EPS are expected to growth 8% and 7% through 2015.

Neutral	**2**
Price (07 Feb 13)	US$37.73
Target price	US$39.00
Expected share price return	3.4%
Expected dividend yield	3.6%
Expected total return	**7.0%**
Market Cap	US$3,405M

Price Performance
(RIC: ATO.N, BB: ATO 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**	**0.32A**	**-0.40A**	**1.95E**	**2.11E**
Previous	0.72A	1.33A	0.32A	-0.40A	1.95E	na
2013E	**0.79E**	**1.40E**	**0.23E**	**0.05E**	**2.46E**	**2.45E**
Previous	0.79E	1.40E	0.23E	0.05E	2.46E	na
2014E	**0.88E**	**1.39E**	**0.27E**	**0.08E**	**2.61E**	**2.60E**
Previous	0.88E	1.39E	0.27E	0.08E	2.61E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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ATO.N: Fiscal year end 30-Sep						Price: US$37.73; TP: US$39.00; Market Cap: US$3,405m; Recomm: Neutral					
Profit & Loss (US$m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**Valuation ratios**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Sales revenue	4,789	4,358	3,438	4,382	4,446	PE (x)	16.6	16.6	19.3	15.3	14.4
Cost of sales	-3,414	-3,015	-2,115	-2,926	-2,942	PB (x)	1.6	1.5	1.4	1.4	1.3
Gross profit	1,375	1,342	1,324	1,457	1,504	EV/EBITDA (x)	7.8	8.3	8.5	7.9	7.7
Gross Margin (%)	28.7	30.8	38.5	33.2	33.8	FCF yield (%)	6.6	3.7	-0.7	-1.4	-4.6
EBITDA (Adj)	**709**	**680**	**679**	**756**	**798**	Dividend yield (%)	3.6	3.6	3.7	3.7	3.8
EBITDA Margin (Adj) (%)	14.8	15.6	19.7	17.3	17.9	Payout ratio (%)	59	60	71	57	55
Depreciation	-217	-228	-240	-244	-243	ROE (%)	9.6	8.9	9.1	9.3	9.5
Amortisation	0	0	0	0	0	**Cashflow (US$m)**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EBIT (Adj)	**492**	**452**	**439**	**512**	**555**	EBITDA	709	680	679	756	798
EBIT Margin (Adj) (%)	10.3	10.4	12.8	11.7	12.5	Working capital	83	-26	-3	194	-16
Net interest	-154	-151	-141	-149	-168	Other	-63	-86	-103	-287	-315
Associates	0	0	0	0	0	**Operating cashflow**	**729**	**568**	**573**	**663**	**467**
Non-op/Except	2	21	-15	0	0	Capex	-500	-442	-597	-711	-625
Pre-tax profit	**339**	**322**	**283**	**363**	**387**	Net acq/disposals	0	0	0	0	0
Tax	-131	-117	-106	-138	-147	Other	0	-4	124	0	0
Extraord./Min.Int./Pref.div.	0	-9	31	0	0	**Investing cashflow**	**-500**	**-446**	**-473**	**-711**	**-625**
Reported net profit	**209**	**197**	**209**	**225**	**240**	Dividends paid	-124	-124	-126	-129	-133
Net Margin (%)	4.4	4.5	6.1	5.1	5.4	**Financing cashflow**	**-163**	**44**	**-45**	**-111**	**-121**
Core NPAT	209	206	177	225	240	**Net change in cash**	**66**	**166**	**56**	**-158**	**-279**
Per share data	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**Free cashflow to s/holders**	**229**	**126**	**-23**	**-47**	**-158**
Reported EPS ($)	2.26	2.18	2.30	2.46	2.61						
Core EPS ($)	2.27	2.28	1.95	2.46	2.61						
DPS ($)	1.34	1.36	1.38	1.41	1.45						
CFPS ($)	7.92	6.28	6.31	7.26	5.08						
FCFPS ($)	2.48	1.39	-0.26	-0.52	-1.72						
BVPS ($)	23.73	24.98	26.17	27.30	28.49						
Wtd avg ord shares (m)	91.8	90.3	90.1	90.4	90.8						
Wtd avg diluted shares (m)	92.1	90.4	90.8	91.4	91.8						
Growth rates	**2010**	**2011**	**2012E**	**2013E**	**2014E**						
Sales revenue (%)	-3.6	-9.0	-21.1	27.5	1.5						
EBIT (Adj) (%)	3.3	-8.2	-2.9	16.7	8.4						
Core NPAT (%)	5.5	-1.4	-13.8	27.0	6.6						
Core EPS (%)	4.8	0.4	-14.1	26.0	6.1						
Balance Sheet (US$m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**						
Cash & cash equiv.	132	131	64	0	0						
Accounts receivables	273	272	235	423	428						
Inventory	319	290	256	463	468						
Net fixed & other tangibles	5,148	5,532	5,927	6,393	6,775						
Goodwill & intangibles	740	740	741	741	741						
Financial & other assets	151	317	273	489	494						
Total assets	**6,764**	**7,283**	**7,496**	**8,509**	**8,907**						
Accounts payable	266	291	215	462	462						
Short-term debt	486	209	571	667	945						
Long-term debt	1,810	2,206	1,956	1,956	1,956						
Provisions & other liab	2,023	2,321	2,394	2,956	2,956						
Total liabilities	**4,585**	**5,027**	**5,136**	**6,041**	**6,320**						
Shareholders' equity	2,178	2,255	2,359	2,468	2,587						
Minority interests	0	0	0	0	0						
Total equity	**2,178**	**2,255**	**2,359**	**2,468**	**2,587**						
Net debt	**2,164**	**2,284**	**2,463**	**2,623**	**2,902**						
Net debt to equity (%)	99.3	101.2	104.4	106.3	112.2						

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Earnings Comparison Table

Figure 1. Actual vs. Estimates

Operating Income	Actual	Estimate	Variance	EPS Impact	Reason for Material Variance
Transmission & Storage	32.0	28.4	13%	$0.02	Rate Case - New Rate Design
Gas Utility	109.1	117.1	-7%	($0.05)	Increase in Rates & lower O&M
Marketing	8.0	7.0	15%	$0.01	Increased Asset Opt Margins, Smaller Losses
Other	0.0	6.5	-100%	($0.04)	N/A
Eliminations	0.0	0.0	-100%	($0.00)	
	149.1	159.0	-6%	($0.07)	
Other	**Actual**	**Estimate**	**Variance**	**EPS Impact**	**Reason for Variance**
Interest Expense	30.5	34.1	-11%	$0.02	Refinancing
Effective Tax Rate	38%	38.0%	0%	$0.00	
Diluted Share Count	91.3	90.8	1%	($0.01)	

Source: Citi Research, Company data

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 (~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 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 $42. We value regulated assets at a multiple of rate base (1.6x for utilities). We value the pipeline assets at 8x '14E EBITDA and the marketing business at 5x '14E EBITDA. These values are partially offset by the company's net debt. Our DDM values the company at $42. 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 15.5X, 15.5x 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 $41.

Risks

The key risks to our investment thesis on ATO 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.

Appendix A-1

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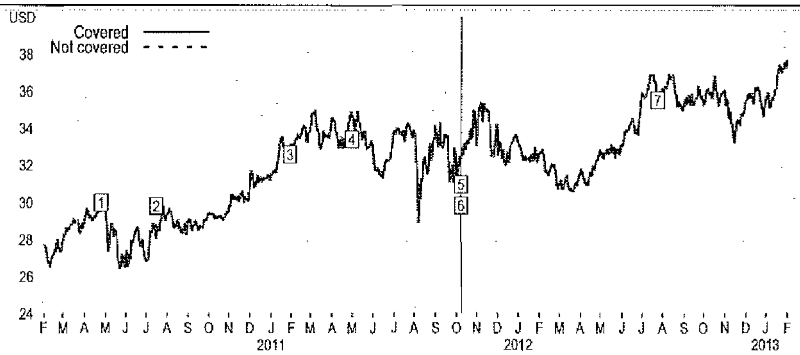
Atmos Energy Corp (ATO)
Ratings and Target Price History
Fundamental Research
Analyst: Faisel Khan, CFA

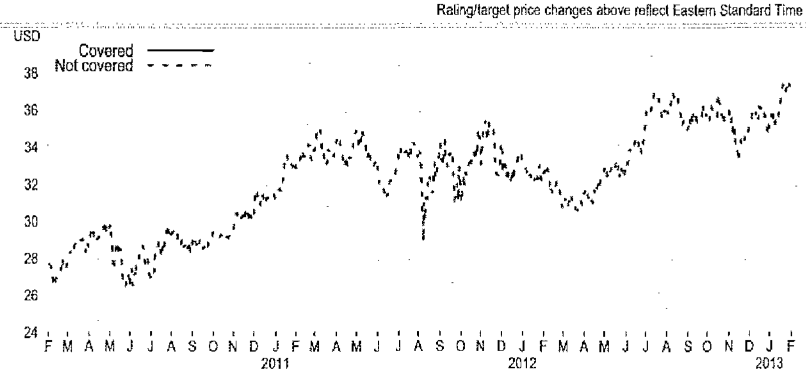


	Date	Rating	Target Price	Closing Price
1	27-Apr-10	2L	*31.00	29.46
2	16-Jul-10	*2M	*30.00	28.02
3	31-Jan-11	2M	*32.00	32.60
4	2-May-11	*2L	*35.00	34.61
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*2	35.00	31.94
7	25-Jul-12	2	*39.00	35.53

* 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



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% of companies in each rating category that are investment banking clients	53%	49%	45%	60%	49%	55%

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Citi Research

Equities

30 April 2013 | 63 pages

Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

North American Pipelines

Late Edition: Raising Target Multiples; Stocks Remain at High-End of Valuation

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- **Valuation** – We are raising our target multiples for the North American gas utilities and pipeline companies to 16.5X from 15.5X. This change is based on our updated analysis of interest rates, BBB corporate bond yields, credit spreads and Citi's Economics team outlook for long-term rates. Our assumptions for equity risk premium and risk free rates remain unchanged.
- **If It's Not Broken, Don't Fix It...For Now** – Q1'13 was another strong quarter for the performance of the gas utilities and pipeline companies. Valuation multiples continued to expand as demand for yield orientated assets continued to rise. Despite valuations based on P/E approaching the upper end of the historic range, a valuation framework based on relative yield to other securities suggests a market weighting for the sector.
- **Recommendation** – Our Preferred Picks within the gas utility and pipeline space are Centerpoint (CNP), Cheniere (LNG), MDU Resources (MDU) and Sempra Energy (SRE). While we continue to rate Williams (WMB) Buy, we believe there are risks to the company's execution strategy, which we will hear more about at the company's analyst day next month.

		Rating		Target Price		Current Year Earnings Estimates	
Company	Ticker	Old	New	Old	New	Old	New
Atmos Energy	ATO	2	2	US$39.00	US$43.00	US$2.46	US$2.62
Brookfield Infr	BIP	2	2	US$36.00	US$36.00	US$0.56	US$0.56
CenterPnt Energy	CNP	1	1	US$26.00	US$27.00	US$1.21	US$1.21
Enbridge	ENB.TO	2	2	C$45.00	C$46.00	C$1.96	C$1.86
EQT	EQT	2	2	US$66.00	US$66.00	US$2.03	US$2.18
AGL Res	GAS	2	2	US$43.00	US$44.00	US$3.03	US$2.75
Cheniere Energy	LNG	1	1	US$30.00	US$30.00	US$-0.48	US$-0.48
MDU Res Grp	MDU	1	1	US$29.00	US$29.00	US$1.27	US$1.27
Natl Fuel Gas Co	NFG	1	1	US$57.00	US$57.00	US$2.79	US$3.18
NiSource Inc	NI	2	2	US$27.00	US$30.00	US$1.58	US$1.54
Oneok Inc	OKE	2	2	US$49.00	US$49.00	US$1.92	US$1.92
Spectra Ener	SE	2	2	US$27.00	US$30.00	US$1.45	US$1.44
Sempra Energy	SRE	1	1	US$80.00	US$91.00	US$4.64	US$4.43
Questar Corp	STR	1	1	US$25.00	US$25.00	US$1.19	US$1.13
Southwest Gas	SWX	2	2	US$48.00	US$51.00	US$2.68	US$3.00
Integrys En	TEG	2	2	-	-	US$3.16	US$3.16
UGI	UGI	2	2	US$37.00	US$40.00	US$2.55	US$2.50
Vectren	VVC	2	2	US$30.00	US$36.00	US$1.91	US$2.02
Williams Cos Inc	WMB	1	1	US$39.00	US$43.00	US$1.27	US$0.94

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

First Quarter 2013 Preview

Figure 1. CIRA EPS Forecasts vs. Consensus; Updated Price Targets & Recommendations; Conference Call Information

Ticker	Company	CQ1 '13 CIRA Est.	CQ1 '13 Consensus*	Delta	FY 2013 CIRA Est.	FY 2013 Consensus*	Delta	FY 2014 CIRA Est.	FY 2014 Consensus*	Delta
GAS	AGL Resources	$1.26	$1.23	$0.03	$2.75	$2.67	$0.08	$2.78	$2.80	($0.01)
ATO	Atmos Energy **	$1.22	$1.25	($0.03)	$2.62	$2.60	$0.02	$2.65	$2.72	($0.07)
CNP	Centerpoint Energy	$0.33	$0.37	($0.04)	$1.21	$1.26	($0.05)	$1.27	$1.32	($0.06)
LNG	Cheniere Energy	($0.10)	($0.41)	$0.31	($0.48)	($1.09)	$0.61	($0.68)	($1.54)	$0.86
ENB	Enbridge	$0.51	$0.52	($0.01)	$1.86	$1.81	$0.05	$2.40	$2.14	$0.26
MDU	MDU Resources	$0.26	$0.23	$0.03	$1.27	$1.32	($0.05)	$1.39	$1.46	($0.07)
NFG	National Fuel Gas	$1.07	$0.97	$0.10	$3.18	$2.91	$0.27	$3.15	$2.98	$0.18
NI	NiSource	$0.71	$0.69	$0.02	$1.54	$1.56	($0.01)	$1.66	$1.67	($0.01)
OKE	Oneok	$0.64	$0.59	$0.05	$1.92	$1.82	$0.10	$2.34	$2.24	$0.10
SWX	Southwest Gas	$1.65	$1.64	$0.01	$3.00	$2.87	$0.12	$3.16	$2.98	$0.18
SE	Spectra Energy	$0.52	$0.48	$0.04	$1.49	$1.51	($0.02)	$1.61	$1.64	($0.04)
SRE	Sempra Energy	$1.01	$1.01	($0.00)	$4.43	$4.52	($0.09)	$5.07	$4.76	$0.31
STR	Questar	$0.45	$0.43	$0.02	$1.19	$1.20	($0.02)	$1.28	$1.29	($0.01)
TEG	Integrys Energy	$1.68	$1.61	$0.07	$3.39	$3.35	$0.04	$3.45	$3.59	($0.14)
UGI	UGI Corp**	$1.38	$1.44	($0.06)	$2.50	$2.48	$0.03	$2.82	$2.78	$0.04
VVC	Vectren Corporation	$0.69	$0.68	$0.01	$2.02	$1.99	$0.03	$1.98	$2.15	($0.17)
WMB	Williams	$0.22	$0.25	($0.03)	$0.94	$1.00	($0.06)	$1.31	$1.39	($0.08)

*FirstCall ** Sept Year End *** Canadian Dollars

Source: Citi Research, Factset

Figure 2. Target Price Summary

Ticker	Company	Rating	Current Price	Target Price	Upside to Target	Cost of Capital
GAS	AGL Resources	Neutral	$43.24	$44.00	2%	4.30%
ATO	Atmos Energy	Neutral	$43.70	$43.00	-2%	4.40%
BIP	Brookfield Infrastructure Partners	Neutral	$38.42	$36.00	-6%	5.04%
CNP	Centerpoint Energy	Buy	$24.26	$27.00	11%	4.64%
LNG	Cheniere Energy	Buy	$28.09	$30.00	7%	13.11%
ENB	Enbridge Inc	Neutral	$46.80	$46.00	-2%	5.43%
EGN	Energen	Buy	$47.54	$61.00	28%	8.05%
EQT	EQT Corporation	Neutral	$73.65	$66.00	-11%	6.73%
MDU	MDU Resources	Buy	$24.13	$29.00	20%	6.54%
NFG	National Fuel Gas	Buy	$62.28	$62.00	0%	7.94%
NI	Nisource	Neutral	$30.75	$30.00	-2%	5.02%
OKE	Oneok	Neutral	$50.82	$49.00	-4%	7.81%
STR	Questar Corp	Buy	$25.07	$25.00	0%	5.73%
SE	Spectra Energy	Neutral	$31.17	$30.00	-4%	6.57%
SRE	Sempra Energy	Buy	$81.51	$91.00	12%	5.14%
SWX	Southwest Gas	Buy	$49.69	$51.00	3%	5.27%
TEG	Integrys Energy	Neutral	$60.57	$57.00	-6%	4.72%
TRP	TransCanada	Neutral	$49.11	$51.00	4%	4.94%
UGI	UGI Corp	Neutral	$40.38	$40.00	-1%	4.95%
VVC	Vectren Corporation	Neutral	$36.62	$36.00	-2%	4.43%
WMB	Williams	Buy	$38.22	$43.00	13%	8.36%

Source: Citi Research

Figure 3. Conference Call Details

Ticker	Company	Conference Call Info			
		Date	Time	Number	Conference ID
GAS	AGL Resources	4/30	4:00 PM	866-510-0712	81257858
ATO	Atmos Energy	5/2	9:00 AM	877-485-3107	n/a
CNP	Centerpoint Energy	5/2	11:30 AM	800-653-1761	28502446
LNG	Cheniere Energy	N/A	N/A	N/A	N/A
ENB	Enbridge	5/8	9:00 AM	800-447-0521	34629096
TEG	Integrys Energy	5/1	9:00 AM	888-788-9425	EARNINGS
MDU	MDU Resources	5/1	10:00 AM	855-859-2056	30760556
NFG	National Fuel Gas	5/3	11:00 AM	800-798-2864	72803281
NI	NiSource	4/30	9:00 AM	866-700-6067	95849232
OKE	Oneok	5/1	11:00 AM	888-695-0614	6379130
STR	Questar	5/1	9:30 AM	800-309-9491	N/A
SWX	Southwest Gas	N/A	N/A	N/A	N/A
SE	Spectra Energy	5/3	11:00 AM	888-252-3715	31676988
SRE	Sempra Energy	5/2	1:00 PM	888-205-6702	2913728
UGI	UGI Corp	5/1	9:00 AM	877-317-6789	N/A
VVC	Vectren	5/1	N/A	N/A	N/A
WMB	Williams	2/21	9:30 AM	888-401-4690	N/A

Source: Citi Research, Company data

Outlook for Integrated Gas Utilities & Pipelines

It has been another strong quarter for the Gas Utility Index. The group, composed of the North American pipelines and gas utilities, were up 16% during the quarter, with the top performers in the group being NWN (+44%), CNP (+26%), and ATO (+23%). Meanwhile, the UTY was up 12% and the S&P 500 was up 10%. Overall, Utilities were the third best performing sector in the S&P 500 during Q1.

Earnings growth for the group remains in the low to mid single digit range. Going into Q1'13 earnings, we expect the group to post better Y-o-Y results given the normalization in weather during the quarter, versus Q1'12. Companies with commodity sensitive segments are likely to see flat to down Y-o-Y results.

We continue to see a gradual rebound in both gas, NGL and power prices as economic growth grinds higher. Our outlook for the balance of the year remains largely unchanged.

We remain constructive toward companies with opportunities: 1) to drop down assets into an MLP structure, 2) to build liquefaction/natural gas export capacity; and 3) to participate in the recovery of NGL and gas prices.

Recap of Q1 2013 & Sector Valuation

The continued strength of Natural Gas Utilities and Pipelines in our universe remains astonishing. Despite mixed earnings over the last couple quarters, the group is trading near peak valuations since the beginning of the millennium.

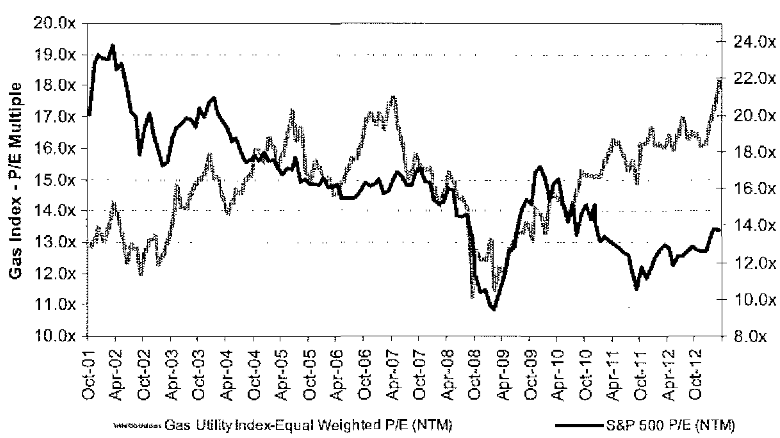
Our Gas Utility index remains at nearly all time highs versus the S&P 500, trading at more than a 30% relative premium to the broader markets, and more than 40% above its long-term average valuation. Since valuations for the group bottomed in April '09, forward P/E multiples for the group have steadily risen. This streak now spans four years, the longest we've seen in some time.

Figure 4. Gas Utility – Multiple Range

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	Target Multiple	16.4
5.0	→	**16.5**
4.8		16.7
4.7	Implied Multiple	16.8
4.5	→	17.0
4.4		17.2

Source: Citi Research, Bloomberg

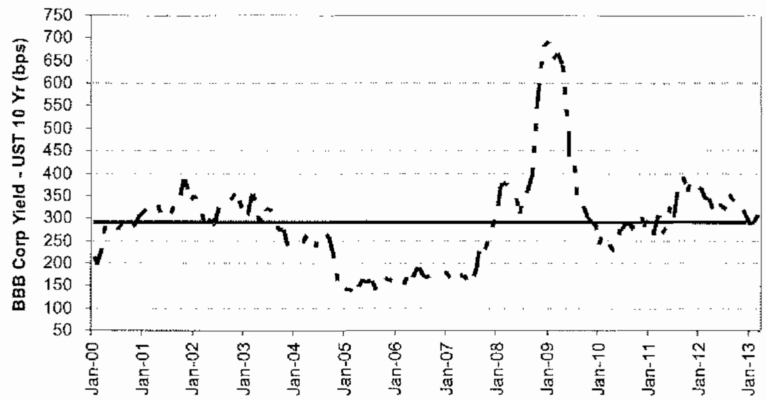
Figure 5. Relative Valuation – S&P 500 NTM P/E vs. Gas Utility & Pipeline E. Weighted Index



Source: Citi Research, Factset

On face value, the Gas Utility Index appears to be trading near the peak. However, when we triangulate equity valuations with other credit and bond yield metrics, the story appears less extreme.

Figure 6. Historical Spread – BBB Bond Yields vs. US 10 Year Treasury

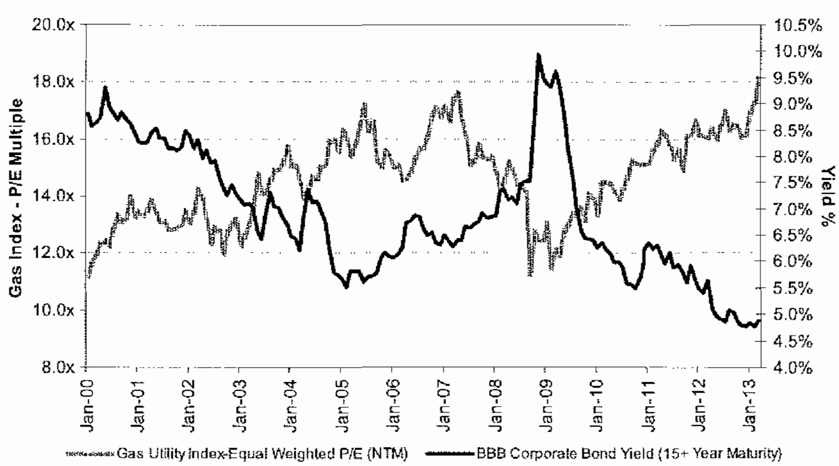


Source: Citi Research

Currently, credit spreads are sitting at their long-term average of ~300 bps over treasuries. Additionally, BBB yields are comfortably below 5% and not expected to move much higher from current levels in the medium term.

Hence, it appears credit spreads are not over-extended. Therefore, Gas Utilities (despite their extended valuations on a relative and absolute basis) continuing to exhibit stable earnings profiles, solid dividend outlook, and relatively low levels of volatility, appear to be a viable alternative to other yielding assets.

Figure 7. Relative Value - Gas Utility & Pipeline E. Weighted Index Valuations vs. Yields



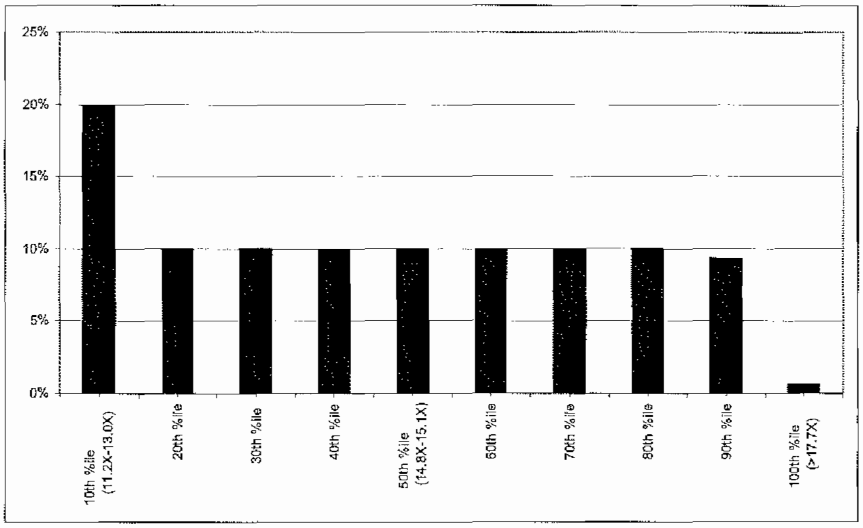
Source: Citi Research, Factset

We are raising our target multiples for both the regulated gas utilities and pipelines to 16.5X (P/E) and to 9X (EV/EBITDA) based on our outlook for credit spreads and yields.

Our estimates are relatively conservative, in our view, given BBB yields are currently trading in the range of 450 bps, implying valuation multiples in the range of 17X.

Despite our re-rating on the group, we believe further multiple expansion from current levels is limited unless we see further reduction in yields. Should we see this it would warrant us to re-examine our target prices without a significant revision in earnings growth versus other sectors.

Figure 8. Gas Utility Index – Historic Perspective of Valuation Multiples in 2013



Source: Citi Research, Factset

As outlined in the chart above, Gas Utilities, over the past 13 years have traded in the P/E band of 11-18X. During this time, we have only seen the group trade ~15 months above 16X NTM earnings. Currently, the group is trading at the highest percentile over the entire period. Further, multiple expansion from here warrants greater caution.

Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

AGL Resources Inc (GAS)

Q113 Earnings Recap; Results Driven by Better Weather Comps

- Company Update
- Target Price Change
- Estimate Change

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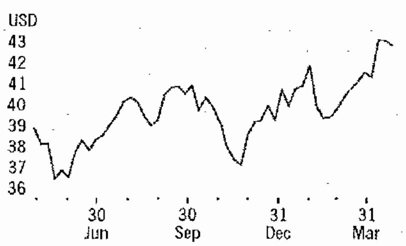
Neutral	**2**
Price (30 Apr 13)	US$43.85
Target price	US$44.00
from US$43.00	
Expected share price return	0.3%
Expected dividend yield	4.3%
Expected total return	**4.6%**
Market Cap	US$5,170M

Price Performance
(RIC: GAS.N, BB: GAS US)



- **Earnings Recap** – AGL reported 1Q'13 EPS today of $1.31 ($1.23 ex. Wholesale), a penny below consensus. Y-o-Y improvements in results were driven by colder-than-normal weather in the first quarter. Guidance was reaffirmed at $2.50-$2.70. A follow up note is forthcoming.

- **Gas Utility/Retail** – The LDC reported EBIT of $218, up 71% over Q1'12 on 34% colder weather in IL and benefits from regulatory infrastructure revenues at Atlanta Gas Light. Operating costs were basically flat Y-o-Y. Retail reported EBIT of $70 mm, up 17% Y/Y, driven primarily by colder weather in GA. Expenses were flat Y-o-Y.

- **Wholesale/Storage/Shipping** – Combined, the three segments reported EBIT of $20 mm, down 13% over last year on continued weakness across midstream, a lack of market volatility and muted demand for storage. Costs remained flat across the segments. AGL expects no imminent change in operating fundamentals in the medium term across its businesses. Nearly 7 BCF or ~20% of total storage capacity is expected to fall of its current contracted rates of ~$0.12 Dth/m in 2014.

- **Valuation & Target Price** – We are raising our target price to $44 per share, up from $43 on our revised valuation outlook. GAS is targeting five-year earnings growth of 4-6% and dividend growth in the 2% range. The payout ratio is expected to remain elevated for the near-term (above 70%) but is expected to decline toward its peer group average (55-60%) as non-regulated earnings recover. The lack of a weather normalization mechanism in IL will continue to pose earnings volatility for the stock. The regulatory environment in IL also remains a challenge.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.18A	0.26A	0.16A	0.81A	2.42A	2.46A
2013E	**1.26E**	**0.22E**	**0.23E**	**1.04E**	**2.75E**	**2.67E**
Previous	1.17E	0.43E	0.30E	1.14E	3.03E	na
2014E	**1.08E**	**0.38E**	**0.25E**	**1.08E**	**2.78E**	**2.80E**
Previous	1.16E	0.43E	0.30E	1.15E	3.04E	na
2015E	**1.12E**	**0.37E**	**0.24E**	**1.13E**	**2.87E**	**2.95E**
Previous	1.21E	0.44E	0.31E	1.21E	3.17E	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

Atmos Energy Corp (ATO)

Q2/13 EPS Below; Rate Base Spending & Growth Remains Steady

- Company Update
- Target Price Change
- Estimate Change

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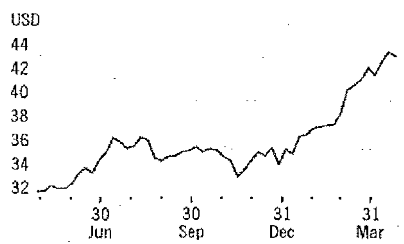
Neutral	**2**
Price (29 Apr 13)	US$43.68
Target price	US$43.00
from US$39.00	
Expected share price return	-1.6%
Expected dividend yield	3.2%
Expected total return	**1.6%**
Market Cap	US$3,954M

Price Performance
(RIC: ATO.N, BB: ATO US)



- **Earnings** – We expect ATO to report Q2'13 EPS of $1.22 per share, below consensus of $1.25. Constructive rate outcomes across ATO's jurisdictions, particularly in Mid-Tex and W. Tex Divisions continue to drive earnings growth. ATO expects 2013E to be at the higher end of their guidance of $2.40-$2.50. We are adjusting our estimates to take into account our expectations of various rate increases across ATO's service territories.
- **Rate Cases** – In Q2, ATO initiated the process of its GRIP filing in APT, Mid-TX and W. TX, where new rates are expected to be instituted by fiscal Q4'13. The pipeline for rate cases this year amounts to a potential increase in rates of ~$60-$70 mm, the majority of which is tied to safety related spending. ATO is also applying to the Kentucky PSC for the recover of $7mm related to bad-debt costs.
- **Capital Spending** – ATO continues to ramp up capital spending across its LDC segments on safety and compliance related work. The company remains well capitalized in the medium term to fund growth opportunities and significant balance sheet capacity to fund projects.
- **Valuation & Target Price** – YTD, ATO is up 26%, and in Q1'13, the stock was up 23% and has been one of the top performers in our group. We are raising our target price to $43 per share on our revised valuation. ATO is poised to grow its rate base in the 8-9% range, at the higher end of our peer group, which should translate into EPS growth between 6-8%.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.72A	1.33A	0.32A	-0.40A	1.95A	2.11A
2013E	**0.90A**	**1.22E**	**0.33E**	**0.17E**	**2.62E**	**2.47E**
Previous	0.79E	1.40E	0.23E	0.05E	2.46E	na
2014E	**0.95E**	**1.32E**	**0.28E**	**0.10E**	**2.65E**	**2.63E**
Previous	0.88E	1.39E	0.27E	0.08E	2.61E	na
2015E	**0.95E**	**1.45E**	**0.28E**	**0.12E**	**2.79E**	**2.79E**
Previous	0.98E	1.46E	0.32E	0.17E	2.92E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

CASE NO. 2013-00148
ATTACHMENT 2
TO OAG DR NO. 1-183

Electric Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update

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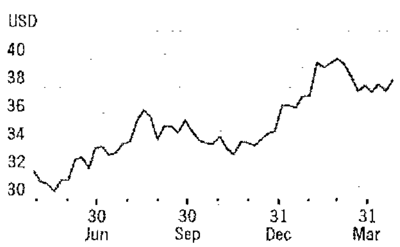
Neutral	2
Price (30 Apr 13)	US$38.65
Target price	US$36.00
Expected share price return	-6.9%
Expected dividend yield	4.3%
Expected total return	**-2.5%**
Market Cap	US$5,491M

Price Performance
(RIC: BIP.N, BB: BIP US)



Brookfield Infrastructure Partners (BIP)

Maintaining Neutral Rating; No Material Changes to Outlook

- **Q1 Earnings** – We estimate BIP will generate FFO (funds from Operations) of ~$102 mm for the quarter. We expect LP distribution to remain unchanged at $0.38 per unit. Our FY 2013 EPS estimate is $0.66 per share.
- **Valuation & Target Price** – We maintain our $36 target price and Neutral rating, which is inline with our yield-spread regression model. In the long-run, BIP aims to grow distributions by 3-7% per year.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.29A	0.17A	0.38A	0.30A	1.13A	1.15A
2012E	**0.08A**	**-0.13A**	**0.34A**	**0.28E**	**0.56E**	**0.55E**
Previous	0.08A	-0.13A	0.34A	0.28E	0.56E	na
2013E	**0.06E**	**0.07E**	**0.26E**	**0.26E**	**0.66E**	**0.87E**
Previous	0.06E	0.07E	0.26E	0.26E	0.66E	na
2014E	**na**	**na**	**na**	**na**	**0.79E**	**1.10E**
Previous	na	na	na	na	0.79E	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

Faisel Khan, CFA
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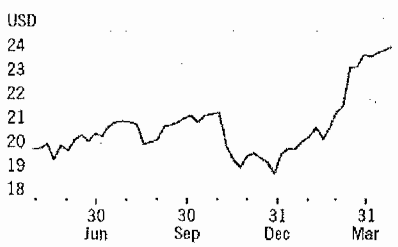
Buy	1
Price (29 Apr 13)	US$24.26
Target price	US$27.00
from US$26.00	
Expected share price return	11.3%
Expected dividend yield	3.4%
Expected total return	**14.7%**
Market Cap	US$10,381M

Price Performance
(RIC: CNP.N, BB: CNP US)



CenterPoint Energy Inc (CNP)

Q1'13 EPS In-line; Expect Update on JV on Call

- **Earnings** – Our Q1'13 EPS estimate is $0.36 per share, inline with consensus. We expect a reduction in earnings at T&D to be offset by LDC earnings given normal weather this past quarter. We also expect better comparable results at the Gathering segment given acquisitions during the past year.

- **JV Update** – We expect management to provide an update on the call with regards to the timeline of the JV with OGE. We suspect an S-1 filing could be delivered in the earlier part of the 2H13.

- **Valuation & Recommendation** – We are raising our target price to $27 per share on our revised valuation multiples and believe CNP is in a good position to capitalize on growth opportunities at the new JV and within its core utility businesses. CNP is well funded and positioned to capitalize on acquisition opportunities.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.33A	0.29A	0.03A	0.31A	0.96A	1.25A
2013E	**0.36E**	**0.27E**	**0.31E**	**0.28E**	**1.21E**	**1.26E**
Previous	0.36E	0.27E	0.31E	0.28E	1.21E	na
2014E	**0.37E**	**0.28E**	**0.32E**	**0.30E**	**1.27E**	**1.33E**
Previous	0.37E	0.28E	0.32E	0.30E	1.27E	na
2015E	**0.40E**	**0.27E**	**0.34E**	**0.27E**	**1.29E**	**1.39E**
Previous	0.40E	0.27E	0.34E	0.27E	1.29E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Storage & Transportation (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

■ Company Update

Faisel Khan, CFA
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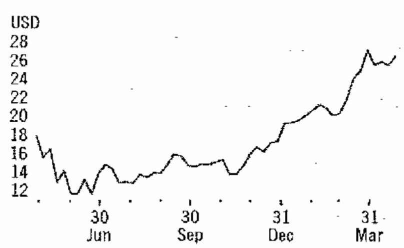
Buy	**1**
Price (29 Apr 13)	US$28.09
Target price	US$30.00
Expected share price return	6.8%
Expected dividend yield	0.0%
Expected total return	**6.8%**
Market Cap	US$6,779M

Price Performance
(RIC: LNG.A, BB: LNG US)



Cheniere Energy Inc (LNG)

Approaching Major Checkpoints; Reiterate Target Price of $30

- **Catalyst** – We expect two significant catalysts to drive Cheniere's stock over the next 60 days. First, we expect an announcement from the DOE regarding the export license quotas to non-free trade agreement countries. The DOE's export capacity quota and policy will give us an indication of the opportunity at Corpus Christi. The second major catalyst is Cheniere's final round of financing for Sabine Pass (Trains 3-4) which is expected to occur toward the latter end of Q2. We estimate LNG will look to raise ~$5BN in financing, of which 80% is likely to come in the form of project financing.
- **Valuation & Target Price** – We maintain our $30 target price and Buy rating. While the stock has performed well more recently and is approaching our target price, we continue to believe there is long-term value to be unlocked through a lower cost of capital and the time value of cash flows. We remain constructive on the company's ability to meet its construction timeline and ability to raise financing at attractive rates given where credit spreads and equity prices currently trade.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	-0.43A	-0.43A	-0.52A	-0.42A	-1.81A	-1.51A
2013E	**-0.12E**	**-0.12E**	**-0.12E**	**-0.12E**	**-0.48E**	**-1.09E**
Previous	-0.12E	-0.12E	-0.12E	-0.12E	-0.48E	na
2014E	**-0.14E**	**-0.17E**	**-0.19E**	**-0.22E**	**-0.72E**	**-1.54E**
Previous	-0.14E	-0.17E	-0.19E	-0.22E	-0.72E	na
2015E	**-0.17E**	**-0.19E**	**-0.18E**	**-0.20E**	**-0.74E**	**-1.14E**
Previous	-0.17E	-0.19E	-0.18E	-0.20E	-0.74E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Storage & Transportation (GICS) | Pipelines (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

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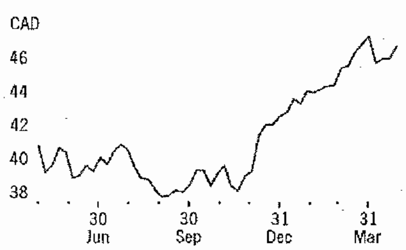
Neutral	**2**
Price (30 Apr 13)	C$46.80
Target price	C$46.00
from C$45.00	
Expected share price return	-1.7%
Expected dividend yield	4.4%
Expected total return	**2.7%**
Market Cap	C$38,508M
	US$38,081M

Price Performance
(RIC: ENB.TO, BB: ENB CN)



Enbridge Inc. (ENB.TO)

Raising Target Price to $46

- **EPS** – We now estimate ENB will earn $0.51 p/s in Q1/13, in-line with consensus of $0.52. Our FY13 EPS estimate is $1.86. Our estimates are adjusted for the recent equity offering.
- **Financing** – On April 4th, ENB issued $500 mm in an equity offering at $46.11/share in a bought deal. Funds from the deal will be used for the company's backlog of growth projects. The company also updated its capital spending estimates originally guided to be ~$32 BN, now up to $35 BN. ENB now plans to raise $1.9 BN in equity, up from $1.4 BN mainly through the use of preferred equity and drop-downs to their income fund vehicles. Total debt raised is expected to be $17.2 BN, up from $15.7 BN.
- **Projects Updates** – During the quarter, ENB's Bakken pipeline expansion project began operations. The 16-inch pipeline will transport 145kbd from the Bakken to multiple markets accessible from the mainline and connected systems. Political discussion around Northern Gateway remains challenging in terms of the project going through.
- **Valuation & Target Price** - We are raising our target price to $46 per share from $45 on our new target multiples. The increase is somewhat offset by the recent equity offering.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.49A	0.35A	0.34A	-0.51A	0.67A	1.59A
2013E	**0.51E**	**0.40E**	**0.43E**	**0.52E**	**1.86E**	**1.81E**
Previous	0.54E	0.44E	0.45E	0.54E	1.96E	na
2014E	**0.60E**	**0.53E**	**0.60E**	**0.67E**	**2.40E**	**2.14E**
Previous	0.62E	0.60E	0.60E	0.67E	2.48E	na
2015E	**0.72E**	**0.64E**	**0.64E**	**0.74E**	**2.75E**	**2.44E**
Previous	0.72E	0.63E	0.62E	0.72E	2.69E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Exploration & Production (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Estimate Change

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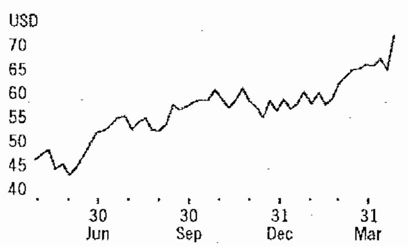
Neutral	**2**
Price (29 Apr 13)	US$74.41
Target price	US$66.00
Expected share price return	-11.3%
Expected dividend yield	0.2%
Expected total return	**-11.1%**
Market Cap	US$11,194M

Price Performance
(RIC: EQT.N, BB: EQT US)



EQT Corporation (EQT)

EPS Ahead of Estimates; Production & Gathering Volumes Jump

- **Q1 Earnings Takeaways** – EQT reported Q1'13 EPS **ahead** of our estimates and the street (Reported $0.66; Citi Estimate $0.62; Consensus $0.52). The quarter was highlighted by 1) continued production volume growth (up ~50% Y/Y), primarily driven by the Marcellus (up 100% Y/Y); 2) a ramp up in Midstream volumes gathered (+40% Y/Y); and 3) a reduction in expenses across the board. A follow up note is forthcoming.

- **E&P** – EBIT was $74 mm vs. our estimate of $85 mm. Sales volumes were 74 Bcfe, essentially inline with our estimates. Overall sales volumes rose ~50% Y/Y, partially offset by a drop in the average wellhead price, but inline with expectations (Q1'13 Realized: $3.14 Mcfe). Natural gas prices rose +20% Y/Y, offset partially by hedges and lower NGL prices. Volumes from the Marcellus jumped to ~600 mmcfe/d from ~300 mmcfe/d in Q1'12. 2013 Production guidance is being raised to 340-350 Bcfe, up ~33% from 2012. On the cost side, LOE expense of $0.15/Mcf was below our $0.18/Mcf number. D&A of $1.54/Mcf was above our $1.40/Mcf assumption. On the call, management announced that 60% of gas production has been hedged for 2013 (average price $4.55 mcf), and 30% for 2014 (average price $4.48 per mcf).

- **Midstream** – EBIT was $74 mm ahead of our estimate of $63 mm on higher gathering volumes (101 mmcf/d vs. 94 mmcf/d estimate), offset partially by slightly lower gathering fees ($0.81 Mcf) against our estimate. Gathering volumes grew by +40% Y/Y. Expenses grew slightly, as EQT continues to build out the business. EQT raised midstream EBITDA guidance from $335 to $350-355 mm. Management expects the next phase of drop downs to EQM to occur in Q3'13. Currently, ~25% of midstream asset sit at EQM.

- **Distribution** – EBIT was $52 mm, ahead of our estimate of $43 mm on increased residential usage due to colder temperatures during the quarter (HDDs up 30% Y/Y), compared to Q1'12. The Sale of the Gas utility is scheduled to receive approval by year end.

- **Valuation** – We are maintaining our valuation pending further analysis.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.50A	0.21A	0.31A	0.46A	1.44A	1.49A
2013E	**0.62E**	**0.47E**	**0.46E**	**0.63E**	**2.18E**	**2.30E**
Previous	0.60E	0.43E	0.42E	0.58E	2.03E	na
2014E	**0.76E**	**0.61E**	**0.60E**	**0.78E**	**2.75E**	**3.11E**
Previous	0.79E	0.64E	0.63E	0.82E	2.88E	na
2015E	**0.89E**	**0.74E**	**0.74E**	**0.93E**	**3.30E**	**4.01E**
Previous	0.94E	0.79E	0.78E	0.98E	3.48E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Multi-Utilities (GICS) | Utilities (Citi)
North America | United States

Company Focus

Integrys Energy Group, Inc. (TEG)

EPS Ahead; Valuation at High-End Vs. Peers

■ Company Update

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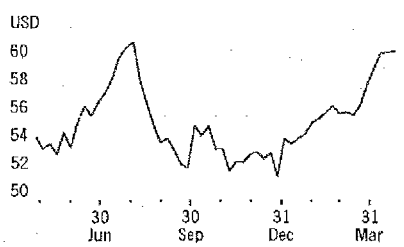
Neutral	**2**
Price (30 Apr 13)	US$61.56
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	-
Market Cap	US$4,835M

Price Performance
(RIC: TEG.N, BB: TEG US)



- **EPS** – Our Q1/13 EPS estimate is $1.68 p/s. Our FY13 estimate is $3.39 p/s. 2013 guidance is expected to be $3.05-$3.55. The wide range is primarily driven by the lack of clarity around the People's rate case, currently under review by the IL PUC. Fox Energy acquisition closed during Q1. TEG expects to raise $600 mm in debt and hybrid financing, and $40 mm in equity (through it Stock Investment Plan) likely in the second half of 2013. Earnings from Fox won't hit TEG's bottom line till next year following regulatory approval. Integrys expects to grow earnings by 4-6% through to 2015, based on 2011 as the base year.

- **Valuation & Outlook** – The stock trades at the higher end of its peer group despite a sober earnings outlook and challenges at its non-regulated business. The regulatory outlook in IL also remains unclear. We don't expect an increase in dividends for at least the next two years.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.48A	0.19A	0.51A	0.98A	3.16A	3.26A
2013E	**1.68E**	**0.42E**	**0.21E**	**1.11E**	**3.39E**	**3.35E**
Previous	1.68E	0.42E	0.21E	1.11E	3.39E	na
2014E	**1.66E**	**0.42E**	**0.23E**	**1.14E**	**3.45E**	**3.59E**
Previous	1.66E	0.42E	0.23E	1.14E	3.45E	na
2015E	**1.65E**	**0.41E**	**0.19E**	**1.09E**	**3.34E**	**3.78E**
Previous	1.65E	0.41E	0.19E	1.09E	3.34E	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

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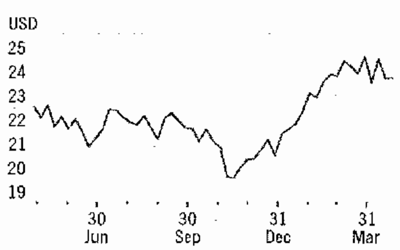
Buy	**1**
Price (30 Apr 13)	US$24.95
Target price	US$29.00
Expected share price return	16.2%
Expected dividend yield	2.7%
Expected total return	**19.0%**
Market Cap	US$4,711M

Price Performance
(RIC: MDU.N, BB: MDU US)



MDU Resources Group Inc (MDU)

EPS Ahead of Street; Significant Value Remains to be Unlocked

- **EPS** – We estimate MDU EPS in Q1/13 will be $0.26 p/s driven primarily by the Y/Y improvement in Construction Services and the E&P segments. A pick up on overall construction activity, buoyed by low interest rates and improving economic growth is driving our improved outlook. Additionally we expect oil production to grow ~30% Y/Y, offsetting lower production of natural gas.
- **Valuation & Target Price** – We are reiterating our $29 target price and Buy rating. We believe there continues to remain opportunity to unlock significant value from the individual components of the company. We think there's limited downside risk to our valuation from current levels.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.19A	0.18A	0.38A	0.40A	1.15A	1.15A
2013E	**0.26E**	**0.20E**	**0.44E**	**0.36E**	**1.27E**	**1.32E**
Previous	0.26E	0.20E	0.44E	0.36E	1.27E	na
2014E	**0.30E**	**0.25E**	**0.46E**	**0.38E**	**1.39E**	**1.46E**
Previous	0.30E	0.25E	0.46E	0.38E	1.39E	na
2015E	**0.32E**	**0.27E**	**0.50E**	**0.42E**	**1.51E**	**1.61E**
Previous	0.32E	0.27E	0.50E	0.42E	1.51E	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

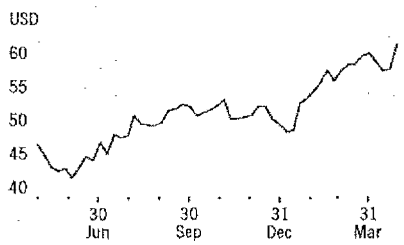
National Fuel Gas Co (NFG)

Maintain Rating for Now

- Company Update
- Estimate Change

Buy	**1**
Price (30 Apr 13)	US$62.28
Target price	US$57.00
Expected share price return	-8.5%
Expected dividend yield	2.1%
Expected total return	**-6.4%**
Market Cap	US$5,200M

Price Performance
(RIC: NFG.N, BB: NFG US)



- **EPS –** We now estimate FQ2'13 EPS of $1.07, above the street at $0.96.
- **E&P** – We estimate F2Q upstream production of 288mmcfed. We expect production in the Appalachia region to be up nearly 8% sequentially. We expect oil production in California to remain flat sequentially.
- **Valuation & Target Price -** We are maintaining our target price and rating pending additional analysis. NFG has a backlog of $700mm in pipeline and midstream projects that we have not fully capitalized in our long-term earnings. Furthermore, the current recovery in gas is likely to provide upside support to our 2013 earnings estimates. We maintain our rating and target price until we can fully evaluate these opportunities.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.73A	0.81A	0.52A	0.58A	2.63A	2.53A
2013E	**0.84A**	**1.07E**	**0.60E**	**0.68E**	**3.18E**	**2.91E**
Previous	0.81E	0.98E	0.48E	0.52E	2.79E	na
2014E	**0.87E**	**1.05E**	**0.60E**	**0.63E**	**3.15E**	**2.98E**
Previous	0.76E	0.98E	0.51E	0.51E	2.75E	na
2015E	**0.89E**	**na**	**na**	**na**	**3.53E**	**3.15E**
Previous	0.84E	na	na	na	3.36E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

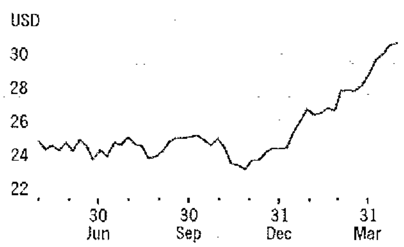
Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	**2**
Price (30 Apr 13)	US$30.75
Target price	US$30.00
from US$27.00	
Expected share price return	-2.4%
Expected dividend yield	3.1%
Expected total return	**0.7%**
Market Cap	US$9,588M

Price Performance
(RIC: NI.N, BB: NI US)



NiSource Inc (NI)

Q1'13 Earnings Recap; Valuation at High-End vs. Peer Group

- **EPS** – NI reported EPS of $0.69 p/s, marginally below consensus and a cent higher from Q112. Overall, operating results across the three segments was mixed, but continues to roll-out new rates alongside the ramp up of infrastructure programs across its entire footprint. The quarter reflects a $340 mm forward equity sale that was initiated in Sept/12, adding 24 mm new shares. Guidance was reiterated at $1.50-$1.60

- **Gas Utility** – NI reported EBIT of $234 mm, down 5% Y/Y on higher operating costs. HDD's were closer to normalized levels, and improved significantly over last year causing throughput to rebound across all segments. Both Col. Gas MA & Col. Gas Maryland filed for rate increase in seeking $30 mm and $5mm, respectively recover infrastructure expenditures. New rates are expected to come into effect Q114/Q313. During the quarter, NI entered into a settlement with the Pennsylvania PUC resulting in a $55 mm rate increase. No details were provided on the ROE or equity layer. The rate base (~$1.2 BN) will be based on estimates for Q2/14, based on the settlement and tied to a quarterly infrastructure spending tracker above the current base rate expectations. New rates are slated for July/13. We estimate Col. Gas of PA represent ~20% of total EBIT of NI's total LDC segment.

- **Gas Transmission** – NI reported EBIT of $134 mm, down slightly Y-o-Y on higher O&M related costs. Throughput bounced 6% Y-o-Y. NI continued to roll-out previously announced projects in the Marcellus basin and projects related to the modernization settlement. Midstream spending continued to ramp up.

- **NIPSCO Electric** – NI reported EBIT of $65 mm, up 33% Y-o-Y. Sales volumes were essentially flat over the same period but cost reductions helped drive results higher. NI reported it Transmission Enhancement program, a $550-700 mm program is in preliminary planning stages and scheduled to come online later this decade.

- **Valuation & Target Price** – We are raising our target price to $30 from $27 on our revised target multiples, but maintain our Neutral rating. Our target price assumes there is no MLP dropdown event for the midstream segment given management's plans to maintain the credit rating of the parent and desire to avoid triggering a tax event.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.66A	0.24A	0.06A	0.44A	1.39A	1.42A
2013E	**0.71E**	**0.28E**	**0.13E**	**0.42E**	**1.54E**	**1.56E**
Previous	0.76E	0.29E	0.10E	0.44E	1.58E	na
2014E	**0.79E**	**0.33E**	**0.14E**	**0.41E**	**1.66E**	**1.67E**
Previous	0.81E	0.33E	0.12E	0.45E	1.71E	na
2015E	**0.80E**	**0.36E**	**0.19E**	**0.45E**	**1.79E**	**1.78E**
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

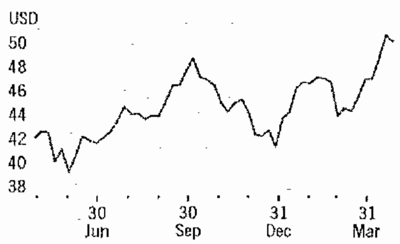
Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Estimate Change

Neutral	2
Price (30 Apr 13)	US$51.36
Target price	US$49.00
Expected share price return	-4.6%
Expected dividend yield	3.0%
Expected total return	**-1.6%**
Market Cap	US$10,585M

Price Performance
(RIC: OKE.N, BB: OKE US)



Oneok Inc (OKE)

Maintain Neutral Rating & $49 Target Price

- **EPS** – Our Q1'13 EPS is now $0.64 p/s, above consensus of $0.59. Our estimates assume Y/Y improvement at the LDC, given more normalized weather across OKE's footprint, offset partially by on-going weakness in NGL prices impacting results at OKS. For 2013, OKE has hedged nearly 80% of its gas volumes at $3.79/mmbtu, and condensate at $102/bbl. Nearly half of the NGL volumes has been locked in at a price of $1.19/gallon.
- **Project Pipeline** – During the first quarter, a few new projects began rolling out. In the Williston Basin, the Stateline II plant (G&P), Bakken NGL pipeline, and Overland Pass expansion (G&P) projects came online. In 2013, natural gas gathered & processed volumes are expected to rise by ~25% over 2012. NGL gathering volumes are expected to rise 14% over last year as 38 new processing plants come online.
- **Valuation & Target Price** – We maintain our $49 target price and Neutral rating pending additional analysis.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.58A	0.28A	0.31A	0.51A	1.69A	1.69A
2013E	**0.64E**	**0.34E**	**0.37E**	**0.58E**	**1.92E**	**1.82E**
Previous	0.66E	0.33E	0.34E	0.59E	1.92E	na
2014E	**0.77E**	**0.46E**	**0.46E**	**0.65E**	**2.34E**	**2.24E**
Previous	0.79E	0.45E	0.45E	0.66E	2.35E	na
2015E	**0.87E**	**0.54E**	**0.53E**	**0.70E**	**2.63E**	**2.68E**
Previous	0.88E	0.54E	0.54E	0.72E	2.68E	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

Questar Corp (STR)

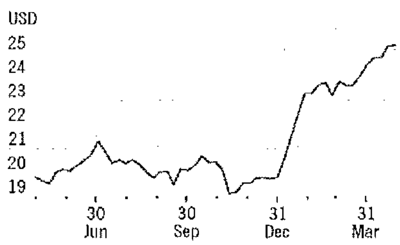
S.Trails & Wexpro II Setup Positive Backdrop; Maintain Buy

- Company Update

- **EPS** – We estimate STR will earn $0.44 per share, essentially in-line with consensus. During the quarter, the Utah PSC approved the terms of a new agreement for Wexpro II, similar to terms at Wexpro I. The agreement will likely generate returns for STR in the 18-20% range. STR will acquire oil and gas properties at its own expense but both the UT and WY commissions will maintain the right of first refusal. We estimate the deal will require STR to spend between $25-$50 mm this year to acquire properties. The WY commission is yet to sign-off on the agreement but it is expected to go through.
- **Valuation & Target Price** – We maintain our $25 target price and Buy rating. We currently include a partial value for STR's interest Southern Trails. STR's active organic growth outlook remains constructive. We will look for an update on the Southern Trails Pipeline conversion plan during the earnings call.

Buy	**1**
Price (30 Apr 13)	US$25.39
Target price	US$25.00
Expected share price return	-1.5%
Expected dividend yield	3.0%
Expected total return	**1.4%**
Market Cap	US$4,448M

Price Performance
(RIC: STR.N, BB: STR US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.41A	0.22A	0.18A	0.36A	1.18A	1.21A
2013E	**0.44E**	**0.19E**	**0.15E**	**0.35E**	**1.13E**	**1.20E**
Previous	0.45E	0.20E	0.15E	0.38E	1.19E	na
2014E	**0.48E**	**0.21E**	**0.16E**	**0.37E**	**1.23E**	**1.29E**
Previous	0.49E	0.22E	0.17E	0.40E	1.28E	na
2015E	**0.51E**	**0.23E**	**0.18E**	**0.40E**	**1.31E**	**1.35E**
Previous	na	na	na	na	1.36E	na

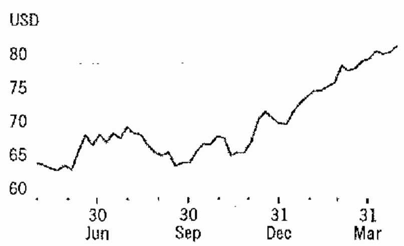
Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

■ Company Update
■ Target Price Change
■ Estimate Change

Buy	**1**
Price (29 Apr 13)	US$81.51
Target price	US$91.00
from US$80.00	
Expected share price return	11.6%
Expected dividend yield	3.1%
Expected total return	**14.7%**
Market Cap	US$19,840M

Price Performance
(RIC: SRE.N, BB: SRE US)



Sempra Energy (SRE)

Adjusting EPS Estimates; Raising Target Price to $91

- **EPS** – We are adjusting our 2013-2014 EPS estimates to $4.43/$4.81 from $4.64/$5.06. In tandem, we are marginally adjusting our Q1'13 estimates to $1.01, below consensus of $1.03. Our estimate changes are driven primarily by management's revised 2013 guidance, which includes a rate increase from the GRC decision, expected to flow through in Q3'13. Overall, we think SRE can continue to grow earnings at an average rate of ~8% per annum through the decade.

- **Utilities** – Our Q1'13 earnings estimate ($175 mm) is flat y-o-y, as SRE continues to recognize earnings based on 2011 rates. Our estimates for 2013 now reflect the midpoint of 2013 earnings guidance (SoCal Gas $355 mm, SDGE $540 mm). Our revised estimates assume: 1) the pending GRC decision remains on track and rolls through to earnings in Q3'13 (final decision expected in May /13); 2) include a ~$50 benefit from gas pipeline repair costs; and 3) lower ROE's for the both the California Utilities and FERC regulated transmission business. Going forward, our estimates reflect approximately 8% earnings growth at SoCalGas and 4% at SDG&E, inline with management's guidance at the 2012 analyst day.

- **International Utilities** – On Mar 22/13, Sempra announced the IPO of its Mexican business unit (formerly Sempra Mexico, now referred to as IENova). The offering will reduce SRE's interest by ~17%, and potentially up to 19% if the overallotment option is exercised in full. The proceeds from the offering (~$500 mm), will be used for investment in midstream projects announced late last year ($1BN pipeline network with CFE), scheduled to ramp up over the next 2-3 years. Our revised EPS estimates account for the reduced stake in the Mexican business. We are raising our target multiples for International segment to be inline with current market levels.

- **Liquefaction** – Our view remains unchanged. We expect SRE will receive both FERC (fall 2013) and DOE (2H13) approvals to export gas at Cameron. However, we are adjusting our model to have the facility exporting in 1H17, in line with management's revised timeline. We previously assumed the first train would come online by 2H16. All three trains could generate ~$850 mm EBITDA to SRE by 2019. Management expects all three trains to be completed by the end of 2018. SRE could begin construction at Cameron later this year.

- **Valuation and Target Price** – We are raising our target price to $91 per share on our updated target multiples for Sempra Mexico and South American assets.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.98A	0.97A	1.12A	1.17A	4.24A	4.35A
2013E	**1.01E**	**0.88E**	**1.39E**	**1.15E**	**4.43E**	**4.52E**
Previous	1.00E	0.93E	1.56E	1.15E	4.64E	na
2014E	**1.27E**	**1.09E**	**1.36E**	**1.08E**	**4.81E**	**4.76E**
Previous	1.06E	1.02E	1.67E	1.30E	5.06E	na
2015E	**1.33E**	**1.27E**	**1.53E**	**1.21E**	**5.34E**	**5.10E**
Previous	1.21E	1.20E	1.84E	1.43E	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

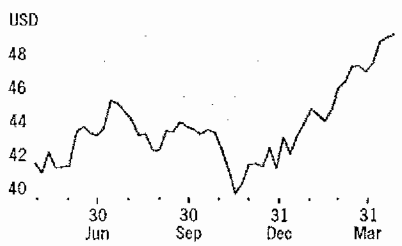
Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (30 Apr 13)	US$50.67
Target price	US$51.00
from US$48.00	
Expected share price return	0.7%
Expected dividend yield	2.6%
Expected total return	**3.3%**
Market Cap	US$2,346M

Price Performance
(RIC: SWX.N, BB: SWX US)



Southwest Gas Corp (SWX)

EPS Ahead of Consensus; No Likely Surprise in Construction

- **EPS** – Our estimate for Q1/13 is now $1.65 per share, slightly ahead of consensus. We are revising our 2013-14 EPS estimates to $3.00/$3.16 to account for the seasonal and economic impact of decoupling mechanisms in AZ.
- **Rate Cases** – On March 14/13, the Nevada PUC voted to authorize slightly higher rates compared to their previous decision in Q4/12. The updated decision will raise the ROEs for both the Southern and Northern. Equity layer and ROE have also been adjusted (S. NV 43%/10%, N.NV 59%/9.3%). SWX also filed a GRC in CA requesting a $12 mm boost to rates (57% equity layer). New rates will become effective Jan/14. On the call, management raised their capex guidance range by ~10% to $340 mm (midpoint) a year out to 2015.
- **Valuation & Target Price** – We are raising our target price to $51 from $48 on our revised valuation multiples and reiterate our Neutral rating. We estimate EBIT at the LDC to grow 1-2% going forward. Overall, management expects to grow operating earnings by 5-8% going forward.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.70A	-0.08A	-0.09A	1.33A	2.86A	2.72A
2013E	**1.65E**	**0.12E**	**0.01E**	**1.22E**	**3.00E**	**2.87E**
Previous	1.55E	0.07E	-0.04E	1.10E	2.68E	na
2014E	**1.68E**	**0.21E**	**0.04E**	**1.24E**	**3.16E**	**2.98E**
Previous	1.58E	0.16E	-0.02E	1.12E	2.84E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

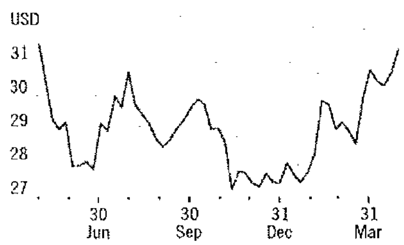
Oil & Gas Storage & Transportation (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	**2**
Price (30 Apr 13)	US$31.53
Target price	US$30.00
from US$27.00	
Expected share price return	-4.9%
Expected dividend yield	3.5%
Expected total return	**-1.4%**
Market Cap	US$21,099M

Price Performance
(RIC: SE.N, BB: SE US)



Spectra Energy Corp (SE)

EPS Above Consensus; Raising Target Price to $29

- **EPS** – Our Q1'13 EPS estimate is now $0.52, above consensus of $0.49. We expect improvements in weather to lift operating results at UST and at Union Gas compared to Q1'12. However, this will be partially offset by weakness at Empress. On the call, we will look for an update on SE's timeline to drop down assets to SEP, including the Express-Platte crude pipeline, which closed late in the quarter.

- **US Transmission** – In late March/13, SE filed an application for its TEAM 2014 pipeline project, planned to move gas from the Marcellus to the East Coast, Gulf Coast and into the Midwest. Anchor shippers on the pipelines include Chevron and EQT Energy. The pipeline has an estimated cost of $520 mm and has committed contract capacity of 600 mmcf/d from producers in the Marcellus. The project is targeted to come online by November/14.

- **W. Canada** – We expect margins to remain under pressure at Empress, and anticipate an operating lost of ~$12 mm on the quarter. Later this year, the Dawson II and North Montney gathering & processing projects are expected to come online towards the back end of the year. Following discussions by producers and offtakers at LNG 17 in Houston in April, the outlook for the development of LNG projects in BC remains constructive. However, we think a rationalization of the nearly a dozen proposed LNG projects is likely to happen over time.

- **DCP** – Our estimate for Q1'13 EBIT is $119 mm, which assumes an average NGL barrel (MB/Conway) of $0.89/g. We will look for an update on the call regarding an updated timeline for drop downs.

- **Valuation & Target Price** – We are raising our target price to $30 from $27 on our revised target multiples, but maintain our Neutral rating. Lower commodity prices and uncertainty regarding the timing and size of drop downs is likely to pose near-term headwinds for the stock.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.52A	0.33A	0.27A	0.32A	1.44A	1.43A
2013E	**0.52E**	**0.33E**	**0.27E**	**0.37E**	**1.49E**	**1.51E**
Previous	0.51E	0.33E	0.28E	0.37E	1.49E	na
2014E	**0.53E**	**0.37E**	**0.32E**	**0.39E**	**1.61E**	**1.64E**
Previous	0.55E	0.37E	0.33E	0.40E	1.65E	na
2015E	**0.60E**	**0.42E**	**0.37E**	**0.46E**	**1.85E**	**1.74E**
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Oil & Gas Storage & Transportation (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

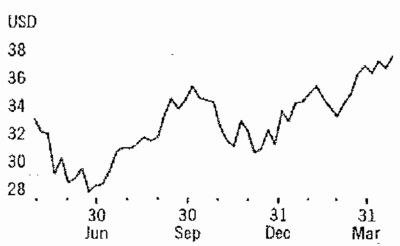
The Williams Companies Inc (WMB)

Raising Target to $43; Execution in the Marcellus-Utica Key to Valuation

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (29 Apr 13)	US$38.22
Target price	US$43.00
from US$39.00	
Expected share price return	12.5%
Expected dividend yield	3.8%
Expected total return	**16.3%**
Market Cap	US$26,088M

Price Performance
(RIC: WMB.N, BB: WMB US)



- **EPS** — We now estimate 1Q'13 EPS of $0.22 per share. This is down sequentially from 4Q as a result of weaker NGL prices, more shares outstanding and interest expense.
- **Growth** — We estimate 2013 EPS will be a low for WMB at $0.94. The capital raises and lower liquids prices have all been a head wind for WMB earnings. However, going forward, last year's acquisitions are expected to significant earnings growth. We estimate 2014 and 2015 EPS now will be $1.31 and $1.96. We believe WMB can hit its dividend targets.
- **Risks** — The key risks to WMB's earnings at this point are: 1) the execution of growth in the Marcellus; 2) a modest recovery in NGL prices; and 3) stable oil prices which have been driving higher ethylene pricing.
- **Valuation** — We are increasing our target price to $43 per share which is solely based on our discounted cash flow valuation. We use this methodology given the LP and GP interest WMB maintains in both WPZ and Access.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.39A	0.22A	0.25A	0.24A	1.09A	1.11A
2013E	**0.22E**	**0.23E**	**0.24E**	**0.25E**	**0.94E**	**1.02E**
Previous	0.30E	0.29E	0.33E	0.35E	1.27E	na
2014E	**0.28E**	**0.29E**	**0.36E**	**0.38E**	**1.31E**	**1.40E**
Previous	0.36E	0.35E	0.40E	0.43E	1.54E	na
2015E	**na**	**na**	**na**	**na**	**1.96E**	**1.52E**
Previous	na	na	na	na	1.98E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

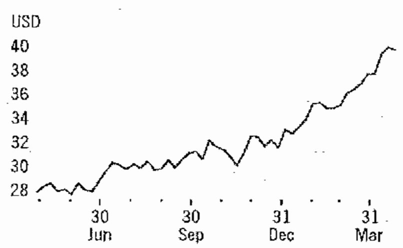
Gas Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	**2**
Price (30 Apr 13)	US$40.98
Target price	US$40.00
from US$37.00	
Expected share price return	-2.4%
Expected dividend yield	2.7%
Expected total return	**0.3%**
Market Cap	US$4,638M

Price Performance
(RIC: UGI.N, BB: UGI US)



UGI Corp (UGI)

EPS Below Street; Valuation Gap to Peer Group Now Closed

- **Earnings** – We now estimate Q2/13 EPS will be $1.38, below consensus of $1.44. Our estimates account for better Y/Y weather across the company's footprint driving better margins at the Propane and Gas Utility. We think the Q1/13 run-up in the stock price has closed the historical valuation discount to its peers. On April 1/13, current CEO Lon Greenberg officially retired. He was replaced by President and COO John Walsh.
- **Propane** – Our estimate for EBITDA is $350 mm, and assumes total gallons sold of 540 mm, and accounts for the Y/Y normalization in weather across APU's service territory. We estimate a ~5% improvement Y/Y in retail propane prices and a ~10% increase in gross profit margin/gallon. UGI now owns 26% of APU and is the sole GP owner.
- **International** – We estimate EBIT of $60 mm for the quarter. Our estimate is ~10% lower Y/Y on higher operating costs related to recent acquisitions.
- **Valuation & Target Price** – We are raising our target price to $40 p/s, up from $37 per share on our revised target multiples. We assume UGI trades at a 15% discount to its gas utility peers given the large position it has in Propane. Our rating is unchanged at Neutral.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.78A	1.20A	-0.05A	-0.14A	1.79A	1.90A
2013E	**0.91A**	**1.38E**	**0.12E**	**0.10E**	**2.50E**	**2.48E**
Previous	1.02E	1.34E	0.11E	0.09E	2.55E	na
2014E	**1.06E**	**1.46E**	**0.16E**	**0.15E**	**2.82E**	**2.78E**
Previous	1.12E	1.39E	0.12E	0.10E	2.73E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

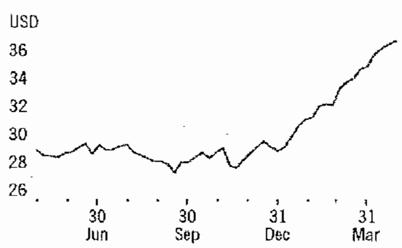
Multi-Utilities (GICS) | Integrated Natural Gas & Gas Utilities (Citi)
North America | United States

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (30 Apr 13)	US$37.56
Target price	US$36.00
from US$30.00	
Expected share price return	-4.2%
Expected dividend yield	3.7%
Expected total return	**-0.4%**
Market Cap	US$3,090M

Price Performance
(RIC: VVC.N, BB: VVC US)



Vectren Corp (VVC)

EPS Inline with Street; Raising Target Price to $36

- **EPS** – Our Q1/13 EPS estimate is now $0.69 per share. We are also raising our 2013 EPS to $2.02, at the midpoint of the company's 2013 guidance Outlook for the Regulated segment remains unchanged, with growth in the low single-digits, while Non-regulated earnings continue to recover. Headwinds at Coal and Trading are likely to persist until the middle of the decade.

- **Regulated** - Regulated earnings should account for 80-90% of earnings, on a combined rate base of $2.6 BN, of which Gas represents 45%, and Electric the balance. Both the gas & electric utilities are earning at their allowed ROEs. Gas infrastructure replacement spending and a focus on cost reductions will drive earnings growth in '13. The utilities are expected to contribute $1.70 (midpoint) of total EPS in 2013, up 1% over 2012. Capex will increase by 10% to $290 mm, and average ~$300 mm/yr through 2015. The regulatory environment in OH & IN remains constructive for infrastructure spending.

- **Non-Regulated** - Infrastructure construction services remains the primary driver of earnings growth in the segment. 2013 guidance for Non-regulated is $0.30 (midpoint), up 15% over 2012. Overall, earnings are expected to grow at 10%.

- **Coal** - Illinois Basin prices are expected to remain in the low to mid $40/ton range. Management remains committed to the business and expects a recovery in gas prices to improve economics for the coal.

- **Valuation & Recommendation** – We are raising our target price to $36 per share from $30 per share on our updated valuation for utilities.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.63A	0.32A	0.47A	0.51A	1.92A	1.94A
2013E	**0.69E**	**0.20E**	**0.51E**	**0.62E**	**2.02E**	**1.99E**
Previous	0.74E	0.12E	0.35E	0.70E	1.91E	na
2014E	**0.70E**	**0.17E**	**0.52E**	**0.59E**	**1.98E**	**2.15E**
Previous	0.75E	0.13E	0.37E	0.72E	1.97E	na
2015E	**0.71E**	**0.17E**	**0.53E**	**0.61E**	**2.03E**	**2.23E**
Previous	0.77E	0.15E	0.38E	0.73E	na	na

Source: Company Reports and dataCentral, Citi Research. 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 (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.

Valuation

We apply four valuation methods to derive a $44 target. 1) NAV yields a value of $42. We value regulated assets at a multiple of rate base (1.6x for utilities, 1.6x for pipelines/storage). We value the Energy Investments unit, which includes storage assets and a propane facility, at 9x 2014E 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 9x 2014E 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 $44. 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 16.5x for the company's regulated & retail marketing assets and 10.0x for the wholesale assets. For our EV/EBITDA analysis, we use multiples of 9x for the company's regulated and retail marketing assets and 6.5x for the wholesale business. Our P/E & EV/EBITDA analyses (2014E earnings) yield values of $45 and $46.

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 (~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 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 $43 target. Our NAV yields a value of $48. We value regulated assets at a multiple of rate base (1.6x for utilities). We value the pipeline assets at 9x '14E EBITDA and the marketing business at 5x '14E EBITDA. These values are partially offset by the company's net debt. Our DDM values the company at $44. 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 16.5X, 16.5x and 10x for the company's utility, pipeline/storage and marketing assets. For our EV/EBITDA analysis, we use multiples of 9x, 9x and 6.5x for the company's utility, pipeline/storage and marketing assets. Our P/E and EV/EBITDA analyses (2014E earnings) yield values of $43 and $46.

Risks

The key risks to our investment thesis on ATO 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 of $36 is based on a 2013 estimated distribution of $1.68 per unit and a 4.67% 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 2% in 2013, in-line with CIRA estimates.

Risks

The primary upside risks to our target price 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 $27 target.

Our NAV yields a value of $30. We value regulated assets at a multiple of rate base (1.6x for utilities, 1.6x for pipelines). The company's marketing and midstream segments are valued at 5x and 10x 2014 EBITDA. These values are partially offset by the company's net debt.

Our DDM values the company at $24.

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 16.5/18x on 2014E earnings for the company's utility/pipeline assets, while applying 18x and 8x multiples to the company's gathering and marketing assets. For our EV/EBITDA analysis, we use multiples of 9x and 10x on 2014E EBITDA for the company's utility and pipeline assets, while applying 10x and 5x multiples to the company's gathering and marketing assets. Our P/E and EV/EBITDA analyses yield values of $25 and $29.

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 Energy at Buy. 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 delevered its balance sheet, but there is a significant amount of project financing and debt held at SPL & CQP. 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 $30.00 per share target price.

Our NAV analysis results in $23 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 $36 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 6.2%, an assumed bond spread to the ten-year Treasury yield of roughly 870 bps, a risk free rate of 2% and a two-year beta of 1.75. The Company's cost of equity is 13% and WACC is 13%. 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 use multiples particular to the specific business parts. We estimate peak earnings per share of nearly $1.65 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 $37 per share.

The average of these values yields a $30 per share target price.

Risks

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 four liquefaction trains. The company has a substantial amount of debt on its balance sheet at CQP. 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 a portion of 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$32 billion). The firm is headquartered in Calgary, Alberta.

Enbridge primarily operates in the following lines of business (shown in line with actual reporting segments):

1) Crude Oil Pipelines & Storage

2) Natural Gas Pipelines, Processing & Energy Services

3) Natural Gas Distribution; and

4) Sponsored Investments & Corporate.

Enbridge owns a 23% 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$46 target price. We value ENB at C$37 p/s on an NAV basis, where we value the company's hard assets at C$67bn and then back out $21bn of net debt and ~C$13bn of expansion capex for an equity value of ~C$33bn ($42p/s); C$48 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$47p/s on an EV/EBITDA basis where we use 2015E EBITDA discounted two years at the company's cost of capital and a 13x forward trading multiple; and C$51p/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.

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 $66, based on the averaged value of the following valuation methodologies. Our NAV calculation results in a target price of $66p/s. We estimate that Distribution is worth ~$850mm based on $107mm of 2013E EBITDA and a 8x multiple. We value EQT's E&P business at ~$6bn, which includes proved reserves of 5.4Tcfe, but affords no credit for probable and possible reserves. We value proved natural gas reserves at $1.15/Mcf and Crude Oil reserves at $18/bbl, though EQT is essentially a pure-play natural gas name. We value the Midstream business at $5bn based on 2013E EBITDA of $430mm (ex Marketing) and a 11.2x EBITDA multiple (blended pipeline & midstream multiple). We assume the Marketing business is worth ~$180mm based on 2013E EBITDA of $37mm (5x mid-cycle multiple). We then subtract ~$2.3bn of net debt and other liabilities. Our DCF analysis results in $70 p/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 $53p/s. We base our analysis on 2013 estimated earnings. Our EV/EBITDA multiple analysis values EQT at $68p/s, based on 2013 EBITDA estimates and a blended multiple of 10.1x.

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.

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

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

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 Buy. We believe MDU should break up via 1) a tax-free spin-off of the Construction Materials & Services business; and 2) an outright sale of E&P. Under such a scenario, we estimate a break-up value of ~$29p/s. Shares of MDU have under-performed a basket of 21 peers (MDU's Proxy peers) by over 500bps YTD. We believe the integrated business model is no longer in the best interest of MDU shareholders.

Valuation

Our target price is $29p/s, which we believe is reflective of the break-up value of the company.

We estimate that MDU will be able to sell the E&P assets for $1.4bn and assume and additional ~$300mm at the parent company as a result of right-sizing its balance sheet, which can be directed towards share repurchases.

We estimate the the NewCo Regulated company will trade at an implied 15.4x 2013 Earnings and the NewCo Construction company at 10.6x '13 EBITDA. These metrics are in-line with peers.

We calculate a total value of ~$13p/s for the Regulated company and ~$16p/s for the Construction company.

Risks

The primary risk to our break-up thesis is that MDU does not to break the company up and remain an integrated company. Otherwise, should exploration prove uneconomic, the company could be left with only ~2 years of drilling inventory across its core Bakken position.

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 $57, based on the average of the following valuation methodologies.

Our NAV calculation results in a target price of $58p/s valuing NFG's hard assets at $6.8bn and then backing out ~$1.4bn of net debt for an equity value of $6bn. Our DCF valuation results in a target price of $59p/s where we value the E&P segment at $46p/s and the rest of the business as $30p/s based on a long-term growth rate of 2% (beyond 2015) We back out $17p/s in debt. We use the company's cost of capital as our discount rate. Our EV/EBITDA methodology results in $53p/s using 2013E EBITDA and a blended multiple of 7.4x, while our long-term earnings calculation is $59p/s using 2013E EPS and a blended 18.5x 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 $1.60+ per share, including growth from expected rate increases at NiSource's utilities. Our estimates do not include i) substantial industrial load growth at the utility or ii) the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale, and iii) better than expected production results across NI's mineral right holdings. Monetization of Utica mineral rights remains unclear, so we rate the shares Neutral, but initial data is constructive.

Valuation

We average multiple valuation methodologies to derive our $30 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 $29. Our P/E and EV/EBITDA multiples (2014 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields.Our P/E and EV/EBITDA analyses yield values of $29 and $33.

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 $49.

Our NAV calculation results in a value of $50p/s valuing OKE's hard assets at ~$13bn and we then back out ~$2.2bn of net debt for an equity value of ~$11bn. Our DCF methodology results in a target price of $51p/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 $47p/s using a blended 21x EPS multiple on 2014E earnings (discounted to 2013), while our long-term EV/EBITDA valuation is $47p/s using a 9.6x blended multiple on 2014E EBITDA (discounted).

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) low-single digit EBIT growth at the company's pipeline segment; 2) ~$60mm per year of infrastructure replacement spend at the utility through 2016; and 3) a 20% rate of return on an increasing capital base (i.e., Wexpro). STR is essentially a fully regulated business. Our estimates assume that Wexpro II will get passed and that Wexpro will invest ~$150mm of capital through 2015. We are including ~$4p/s of incremental (risked at 50%) upside tied to the company's current Southern Trails pipeline conversion project.

Valuation

Our target price is $25, based on the average of the following valuation methodologies:

Our NAV calculation results in a target price of $22.50p/s. We estimate that the distribution business is worth $1.1bn based on 2013E EBITDA and an 8x mid-cycle EBITDA multiple. We value STR's Pipeline & Storage business at ~$1.5bn, which is based on 2013E EBITDA and an 8x mid-cycle multiple. We value the regulated E&P business, Wexpro, at $2.6bn. This is based on a DDM (dividend discount model) and net income (for Wexpro II). We then subtract ~$1.3 billion of net debt to derive an equity value.

Our DCF analysis results in $21p/s. We derive a NPV of cash flows over the next 10 years discounted at the firm's WACC of 5.35%. We then add the residual value of the Utility & pipeline assets as well as the residual value of Wexpro. We subtract net debt of ~$1.3bn to derive the equity value.

Our long-term P/E analysis results in a value of $21.75p/s. We base our analysis on 2015 estimated earnings discounted to 2013.

Our EV/EBITDA multiple analysis values Questar at $22p/s. We use a weighted average 2015E EBITDA multiple of 8.9x on projected EBITDA of $575mm (discounted to 2013). We subtract ~$1.3bn of net debt to reach our $22p/s target.

We then average these four values together for a target price of ~$21.66 p/s, to which we add an incremental ~$4p/s ($3.60p/s rounded up) for our $25 target price.

Risks

The primary risks to achieving our target price are:

1) Lack of drilling success at the regulated E&P segment would result in a lower investment base and therefore a lower return and a potentially lower share price.

2) Regulatory pushback or a failure to sign up adequate capacity on the Southern Trails conversion is a key downside risk.

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 $91 target.

Our NAV yields a value of $89. We value regulated assets at a multiple of rate base (1.6X for utilities, 1.6X 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 $95. 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

16.5X, 16.5X and 14X to 2014 earnings at the utility, pipeline and generation segments. Our P/E analysis yields a value of $90.

For our EV/EBITDA analysis, we apply multiples of 9X,9X and 8.5X to 2014 utility, pipeline and generation EBITDA. Our EV/EBITDA analysis yields a value of $89.

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, along with changes in the regulatory outlook towards exporting gas. (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. (7) SRE is successful in obtaining regulatory approval to export natural and close financing. 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 and our rating.

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 $51 target. Our NAV yields a value of $54. We value regulated assets at a multiple of rate base (1.6x for utilities, 1.6x 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 $46. 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 16.5x, 16.5x 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 $50 and $54.

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 $30 target. Our NAV yields a value of $33. We value regulated assets at a multiple of rate base (1.6x for utilities, 1.6x for pipelines). We value the Field Services segment at 14.5x 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 $28, 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 16.5x for the company's utility and pipeline assets. Our P/E and EV/EBITDA analyses yield values of $28 and $30.

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. We also include the recent ACMP acquisition in our estimates.

Valuation

Our discounted cash flow analysis yields a $43 target price. We model in WPZ contribution via LP and GP distributions as well as ACMP. We tax distributions 25% for WPZ and 25% for ACMP (though we realize there will be no taxes on the latter in the near-term due to deferrals). We discount our cash flows at our WACC.

Risks

Risks we see to Williams achieving our target price include the following:

WPZ - WMB will generate 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.

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 Neutral (2). 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 $40 target price.

Our NAV yields a value of $39. We value regulated assets at a multiple of rate base (1.6x for gas utilities). The company's gas marketing segment is valued at 6.5x 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 ($36.50). 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 $36. 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 16.5x, 10.0x, 16.5x and 10.0x for the company's Gas utility, Propane, Electric utility and Marketing/energy services assets. For our EV/EBITDA analysis, we use multiples of 8x and 7x 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 $41 and $42.

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.

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 $36 target. Our NAV yields a value of $36. We value regulated assets at a multiple of rate base (1.6x for gas utilities). We value ProLiance at 6.5x earnings, in-line with our estimated marketing multiple. The company's coal mining and energy services segments are valued at 6x and 6x 2014E EBITDA, based on midstream and marketing multiples. These values are partially offset by the company's net debt. Our DDM values the company at $35. 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 2014E multiples of 16.5x for the gas utility and 16.5x for the electric utility and 10x for the company's unregulated assets. For our EV/EBITDA analysis, we use multiples of 8.5x and 6.5x for the company's utility and unregulated assets. Our P/E and EV/EBITDA analyses yield values of $31 and $38.

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.

Appendix A-1

Analyst Certification

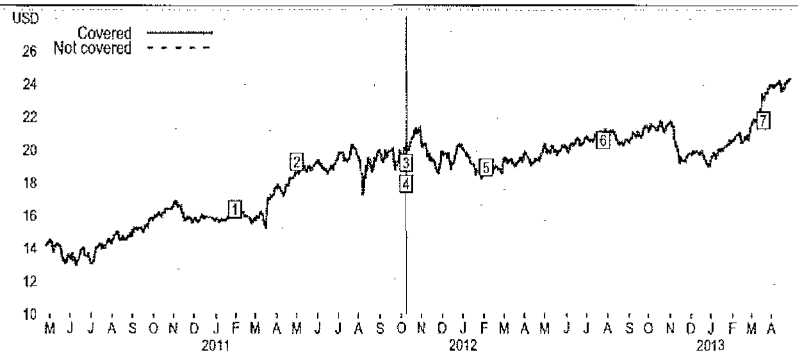
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each 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

CenterPoint Energy Inc (CNP)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	31-Jan-11	1M	*18.00	16.15
2	2-May-11	1M	*21.00	18.59
3	8-Oct-11	Stock rating system changed		
4	8-Oct-11	*2	21.00	19.93
5	3-Feb-12	*1	*22.00	18.88
6	25-Jul-12	1	*23.00	20.57
7	19-Mar-13	1	*26.00	22.97

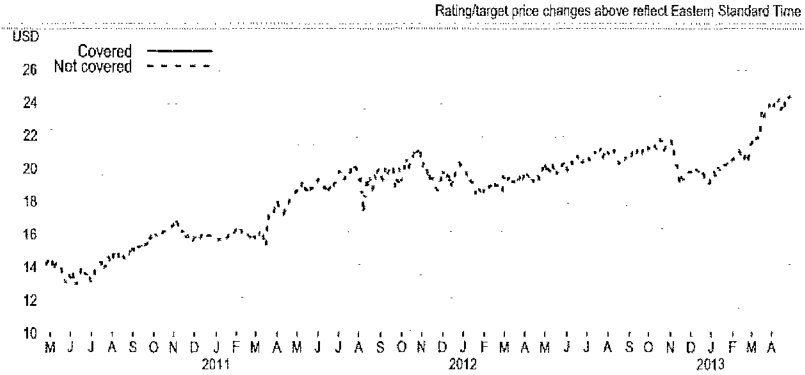
* Indicates change

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



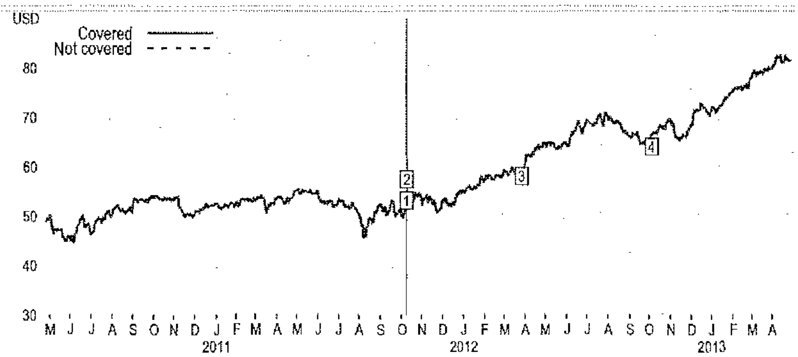
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sempra Energy (SRE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	8-Oct-11	*1	60.00	50.93
3	27-Mar-12	1	*65.00	59.05
4	4-Oct-12	1	*80.00	66.39

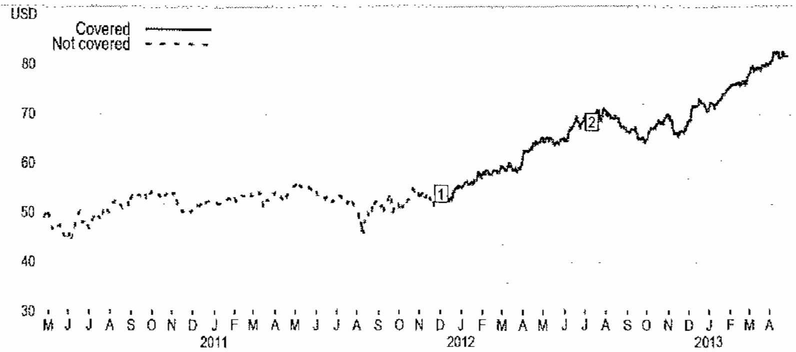
* Indicates change

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	2-Dec-11	*ADD MP	-	52.92

	Date	Rating	Target Price	Closing Price
2	11-Jul-12	*REM MP	-	68.46

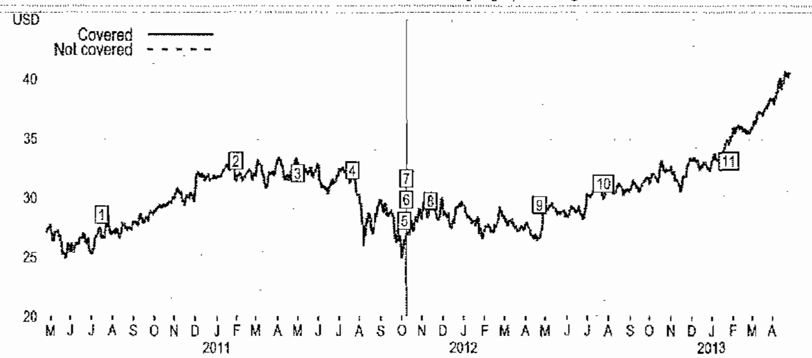
* Indicates change

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	16-Jul-10	1M	*33.00	26.59
2	31-Jan-11	*2M	33.00	31.35
3	2-May-11	2M	*36.00	32.74
4	21-Jul-11	2M	*34.00	32.29

	Date	Rating	Target Price	Closing Price
5	6-Oct-11	*1M	*31.00	26.40
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*1	31.00	26.27
8	13-Nov-11	1	*33.00	29.41

	Date	Rating	Target Price	Closing Price
9	23-Apr-12	1	*31.00	26.62
10	25-Jul-12	1	*34.00	29.92
11	25-Jan-13	*2	*37.00	34.56

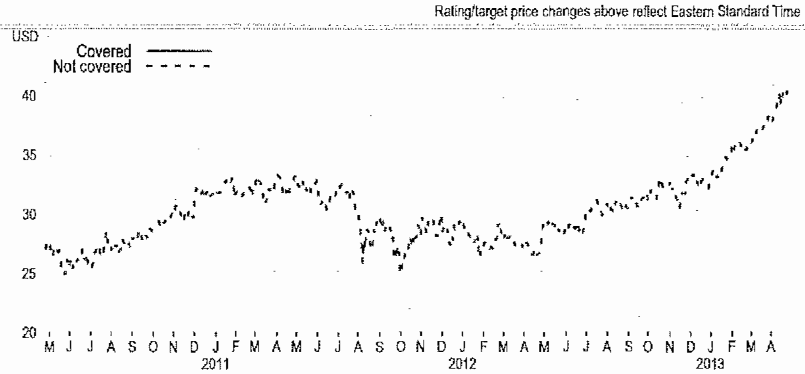
* Indicates change

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



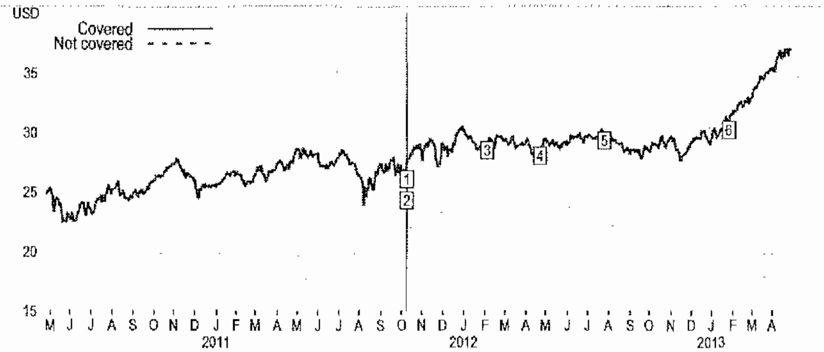
* Indicates change

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 8-Oct-11	Stock rating system changed		
2 8-Oct-11	*2	26.00	26.77
3 3-Feb-12	2	*28.00	29.08
4 23-Apr-12	2	*29.00	28.46
5 25-Jul-12	2	*31.00	29.41
6 25-Jan-13	2	*30.00	31.05

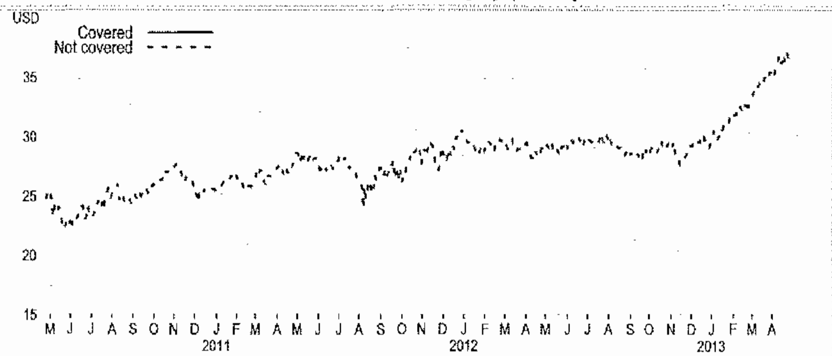
* Indicates change

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



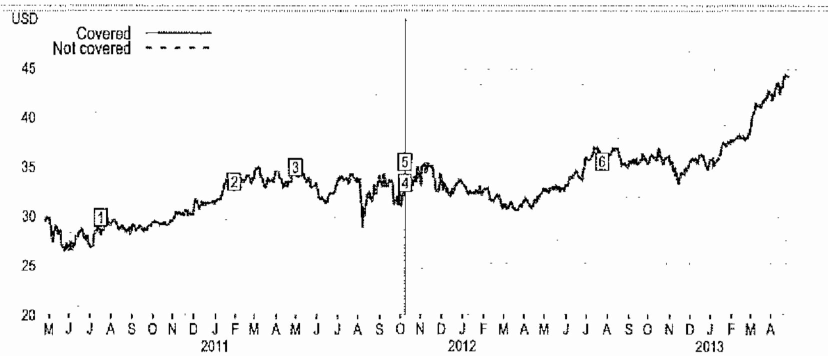
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Atmos Energy Corp (ATO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



Date	Rating	Target Price	Closing Price
1 16-Jul-10	*2M	*30.00	28.02
2 31-Jan-11	2M	*32.00	32.60
3 2-May-11	*2L	*35.00	34.61
4 8-Oct-11	Stock rating system changed		
5 8-Oct-11	*2	35.00	31.94
6 25-Jul-12	2	*39.00	35.53

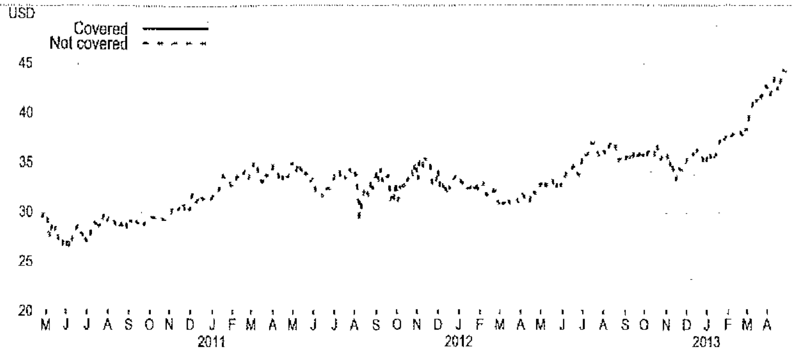
* Indicates change

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



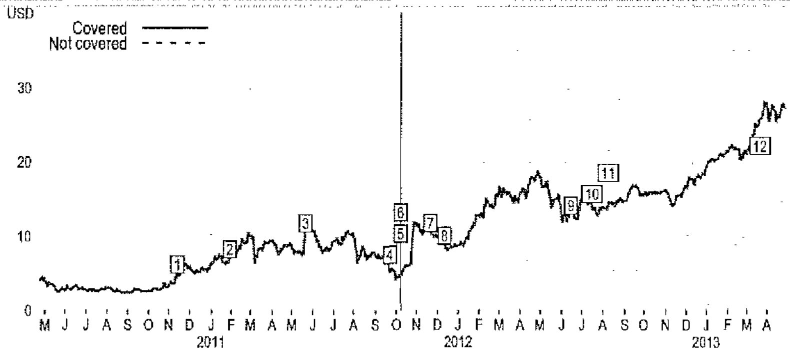
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Cheniere Energy Inc (LNG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	14-Nov-10	2S	*5.00	4.37
2	31-Jan-11	*1S	*10.00	7.31
3	23-May-11	1S	*15.50	11.76
4	23-Sep-11	1S	*14.00	5.07
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*1H	14.00	4.60
7	22-Nov-11	1H	*19.00	11.34
8	13-Dec-11	1H	*16.00	9.34
9	15-Jun-12	1H	*26.00	14.10
10	17-Jul-12	1H	*23.00	13.84
11	9-Aug-12	1H	*25.00	14.06
12	21-Mar-13	*1	*30.00	25.80

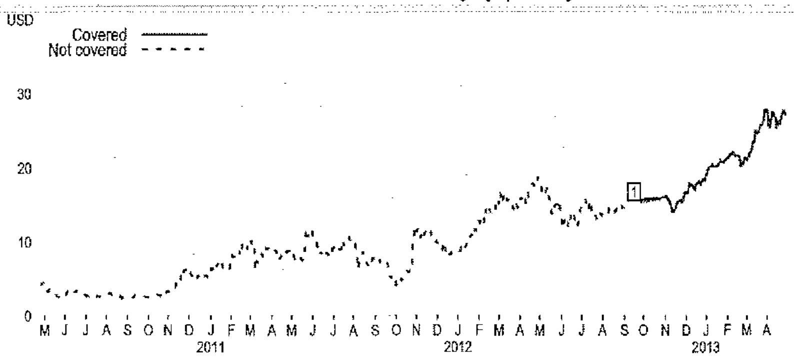
* Indicates change

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



	Date	Rating	Target Price	Closing Price
1	17-Sep-12	*ADD MP	-	16.71

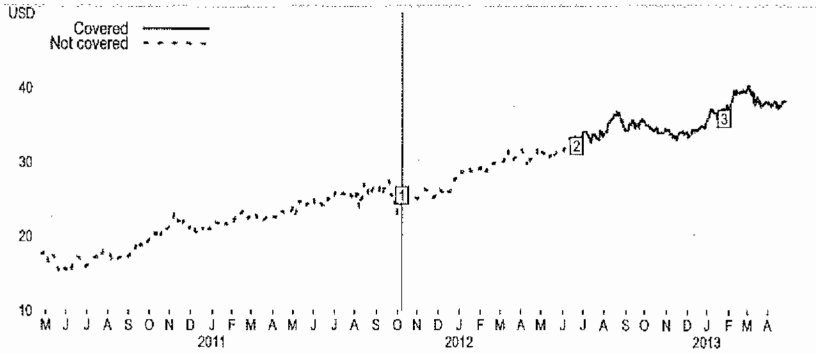
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Brookfield Infrastructure Partners (BIP)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013



Date	Rating	Target Price	Closing Price
[1] 8-Oct-11	Stock rating system changed		

Date	Rating	Target Price	Closing Price
[2] 21-Jun-12	*2	*34.00	32.18

Date	Rating	Target Price	Closing Price
[3] 25-Jan-13	2	*36.00	37.25

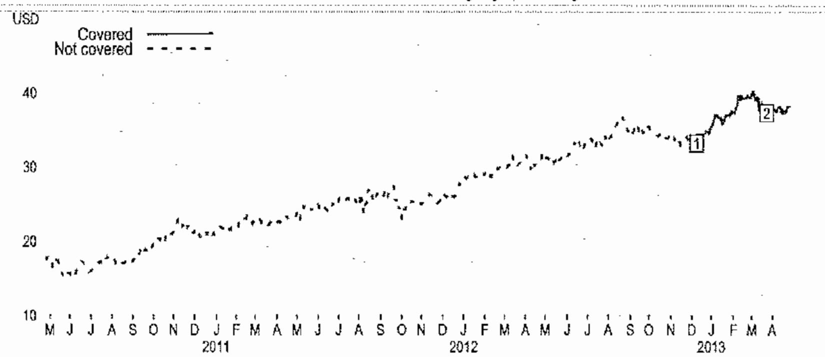
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Brookfield Infrastructure Partners (BIP)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA
Covered since March 22 2013



Date	Rating	Target Price	Closing Price
[1] 10-Dec-12	*ADD LP	-	34.27

Date	Rating	Target Price	Closing Price
[2] 22-Mar-13	*REM LP	-	37.62

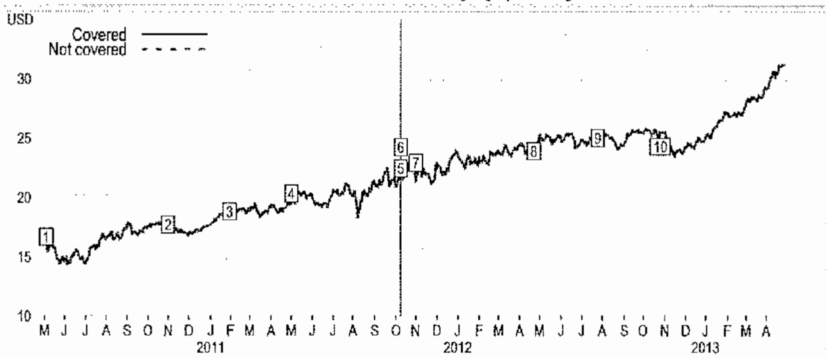
* Indicates change

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] 5-May-10	2M	*17.00	16.20
[2] 1-Nov-10	2M	*18.00	17.17
[3] 31-Jan-11	2M	*20.00	18.62
[4] 2-May-11	2M	*21.00	19.52

Date	Rating	Target Price	Closing Price
[5] 8-Oct-11	Stock rating system changed		
[6] 8-Oct-11	*2	21.00	21.55
[7] 1-Nov-11	2	*22.00	21.32
[8] 23-Apr-12	2	*24.00	24.30

Date	Rating	Target Price	Closing Price
[9] 25-Jul-12	2	*26.00	25.12
[10] 25-Oct-12	2	*27.00	25.54

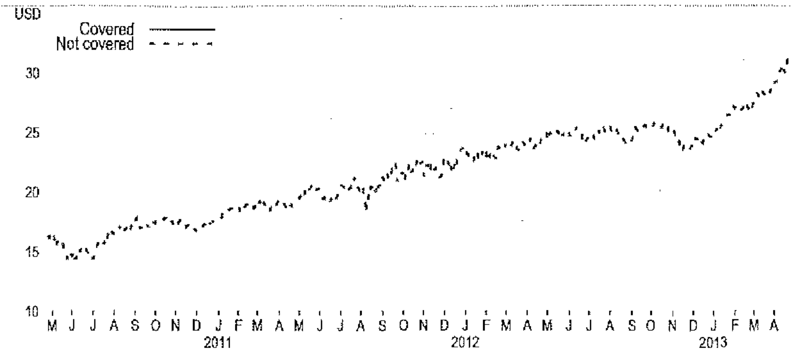
* Indicates change

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



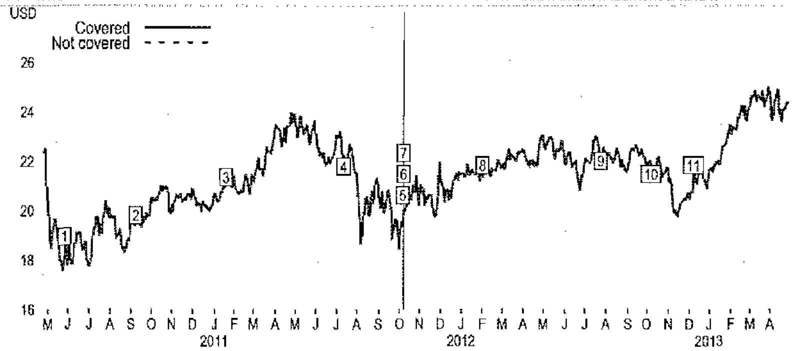
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MDU Resources Group Inc (MDU)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013



	Date	Rating	Target Price	Closing Price
1	27-May-10	*1M	*22.50	18.22
2	9-Sep-10	1M	*22.00	19.53
3	20-Jan-11	1M	*23.50	21.32
4	13-Jul-11	*2M	*24.00	22.26
5	7-Oct-11	2M	*21.50	19.34
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*2	21.50	19.34
8	2-Feb-12	2	*21.00	21.31
9	25-Jul-12	2	*23.00	22.04
10	8-Oct-12	2	*22.00	21.90
11	10-Dec-12	*1	*29.00	21.38

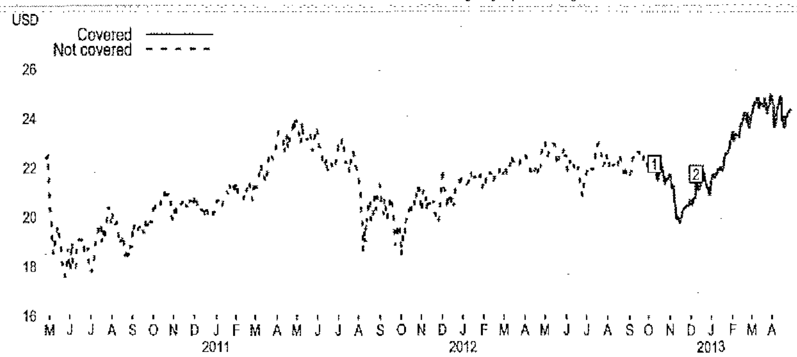
* Indicates change

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: Faisel Khan, CFA
Covered since March 22 2013



	Date	Rating	Target Price	Closing Price
1	9-Oct-12	*ADD LP	-	21.82
2	10-Dec-12	*REM LP	-	21.38

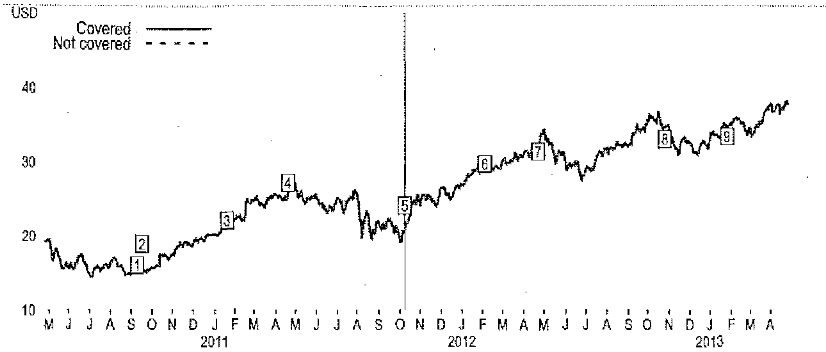
* Indicates change

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	9-Sep-10	1M	*24.50	15.74
2	16-Sep-10	1M	*23.27	15.06
3	20-Jan-11	1M	*26.13	21.33
4	20-Apr-11	1M	*31.03	25.95
5	8-Oct-11	Stock rating system changed		
6	3-Feb-12	*1	*32.50	29.70
7	23-Apr-12	1	*36.00	32.31
8	25-Oct-12	1	*40.00	34.71
9	25-Jan-13	1	*39.00	34.83

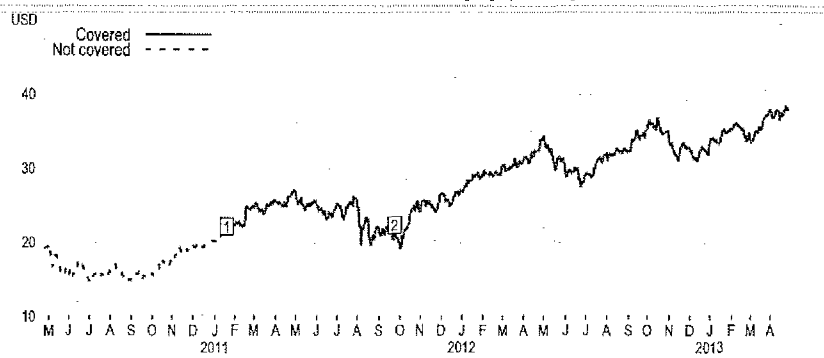
* Indicates change

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

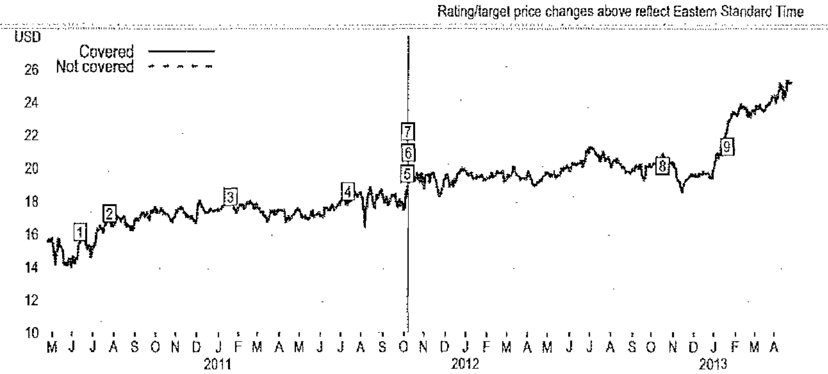
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Questar Corp (STR)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013



	Date	Rating	Target Price	Closing Price
1	14-Jun-10	1M	*18.05	15.41
2	27-Jul-10	1M	*18.05	17.20
3	20-Jan-11	*1L	*19.00	17.92
4	13-Jul-11	1L	*19.25	17.99
5	7-Oct-11	1L	*20.50	18.55
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*1	20.50	18.55
8	17-Oct-12	*2	*21.75	20.91
9	22-Jan-13	*1	*25.00	22.37

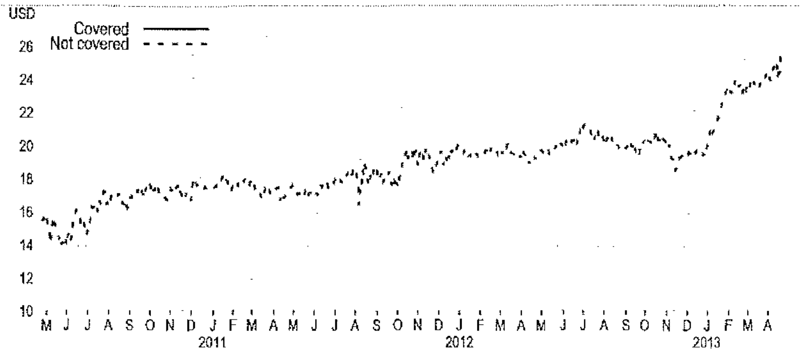
* Indicates change

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: Faisel Khan, CFA
Covered since March 22 2013



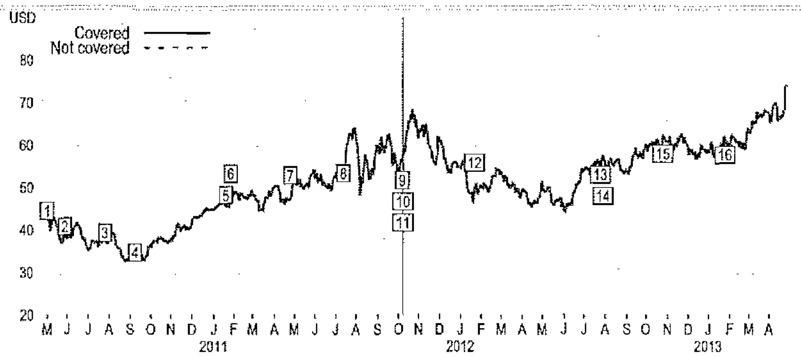
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

EQT Corporation (EQT)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013



	Date	Rating	Target Price	Closing Price
1	28-Apr-10	2M	*50.50	44.46
2	28-May-10	*1M	*50.00	39.19
3	27-Jul-10	1M	*46.50	37.39
4	9-Sep-10	1M	*41.50	34.50
5	20-Jan-11	*2M	*46.50	45.49
6	27-Jan-11	2M	*50.00	46.75
7	26-Apr-11	2M	*48.00	47.28
8	13-Jul-11	2M	*59.00	55.09
9	7-Oct-11	2M	*61.00	55.80
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*2	61.00	55.80
12	23-Jan-12	2	*52.00	50.13
13	25-Jul-12	2	*56.00	54.68
14	29-Jul-12	2	*58.00	56.99
15	25-Oct-12	2	*64.00	60.72
16	25-Jan-13	2	*66.00	61.95

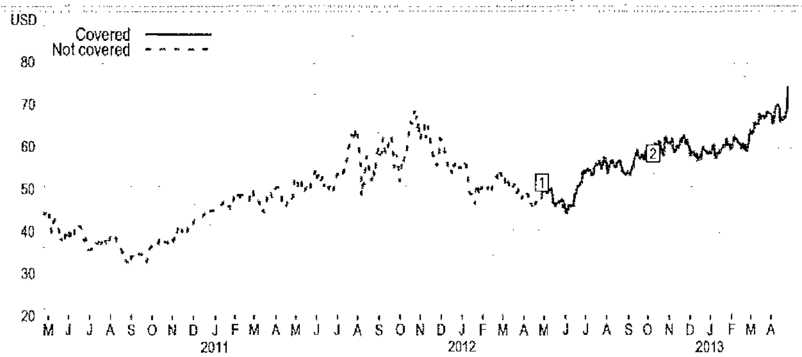
* Indicates change

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: Faisel Khan, CFA
Covered since March 22 2013



	Date	Rating	Target Price	Closing Price
1	27-Apr-12	*ADD LP	-	47.83
2	9-Oct-12	*REM LP	-	60.49

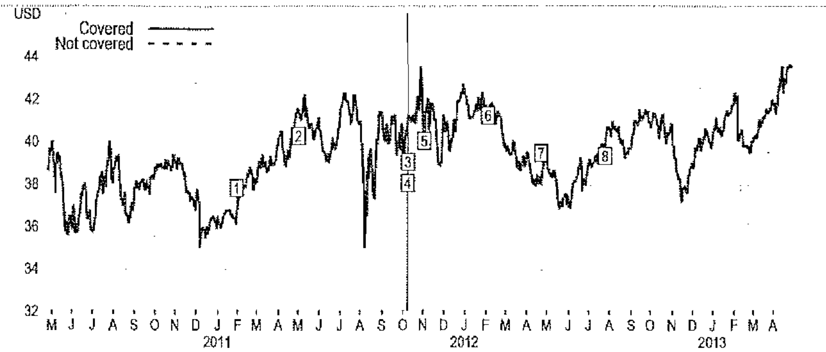
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AGL Resources Inc (GAS)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	30-Jan-11	*1M	*41.00	36.09
2	2-May-11	*1L	*44.00	41.45
3	8-Oct-11	Stock rating system changed		
4	8-Oct-11	*2	44.00	40.44
5	2-Nov-11	2	*42.00	39.99
6	3-Feb-12	2	*43.00	41.55
7	23-Apr-12	2	*41.00	37.95
8	25-Jul-12	2	*43.00	39.70

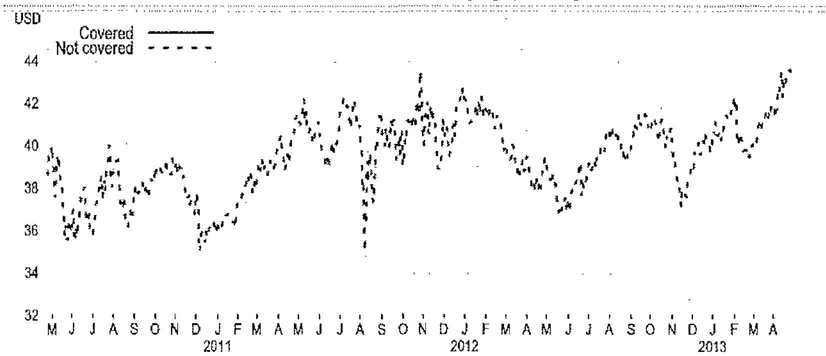
* Indicates change

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



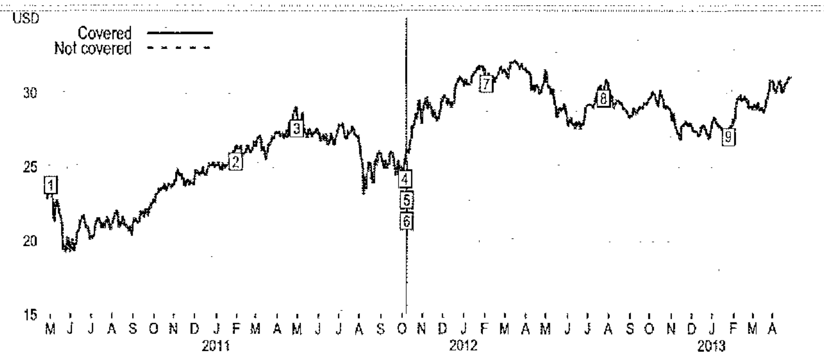
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Spectra Energy Corp (SE)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	28-Apr-10	2H	*23.00	23.15
2	31-Jan-11	*2M	*25.00	26.23
3	2-May-11	2M	*28.00	28.71
4	6-Oct-11	2M	*26.00	25.51
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*2	26.00	25.33
7	3-Feb-12	2	*32.00	30.56
8	25-Jul-12	2	*29.00	29.69
9	25-Jan-13	2	*27.00	27.09

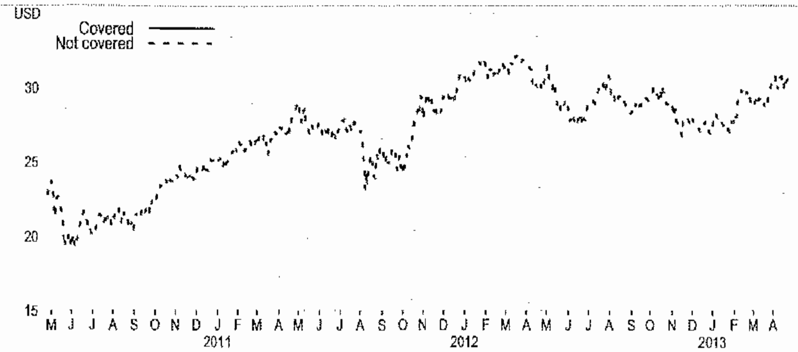
* Indicates change

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



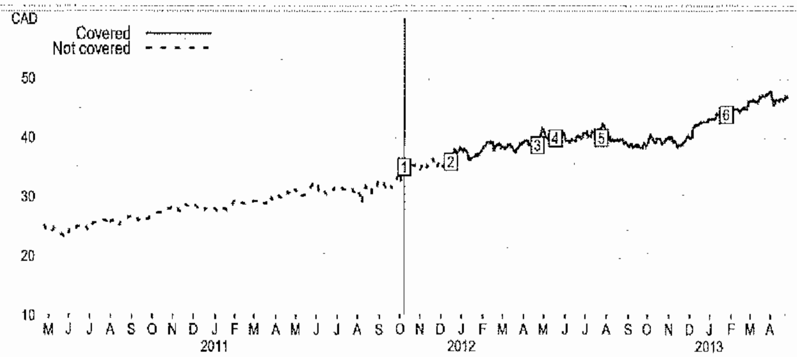
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB.TO)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	16-Dec-11	*2	*37.37	35.85
3	23-Apr-12	2	*35.68	39.50
4	18-May-12	2	*41.50	40.03
5	25-Jul-12	2	*44.00	41.59
6	25-Jan-13	2	*45.00	44.18

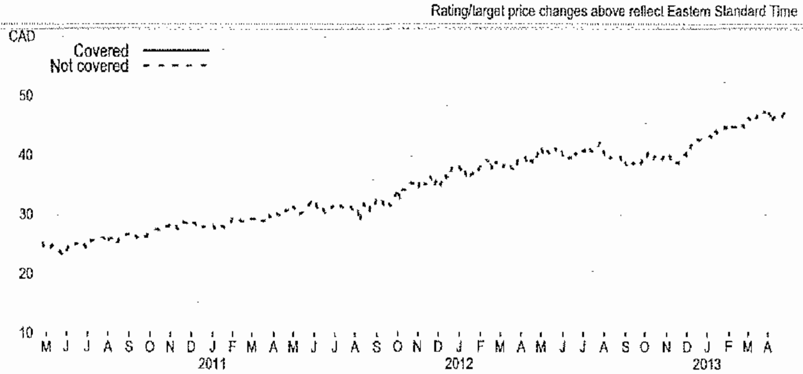
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Enbridge Inc. (ENB.TO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA
Covered since March 22 2013



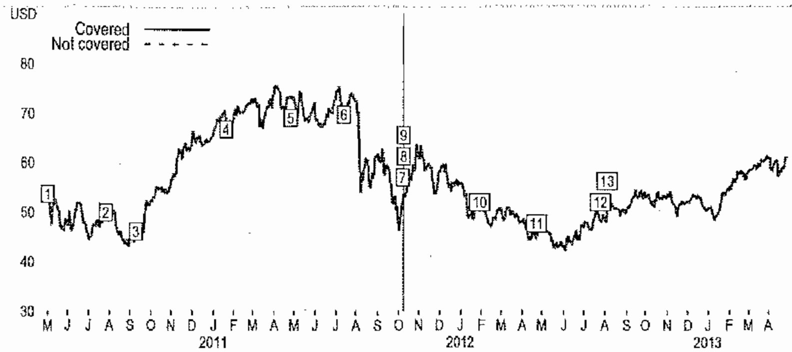
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

National Fuel Gas Co (NFG)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since March 22 2013



Date	Rating	Target Price	Closing Price
[1] 28-Apr-10	2M	*54.00	52.67
[2] 27-Jul-10	2M	*52.00	49.20
[3] 9-Sep-10	2M	*47.50	45.03
[4] 20-Jan-11	*3S	*67.00	66.81
[5] 26-Apr-11	3S	*70.00	73.45
[6] 13-Jul-11	*2H	70.00	70.82
[7] 7-Oct-11	*1H	*64.00	51.92
[8] 8-Oct-11	Stock rating system changed		
[9] 8-Oct-11	*1	64.00	51.92
[10] 29-Jan-12	1	*63.00	50.56
[11] 23-Apr-12	1	*57.00	44.60
[12] 25-Jul-12	1	*55.50	48.25
[13] 3-Aug-12	1	*57.00	49.38

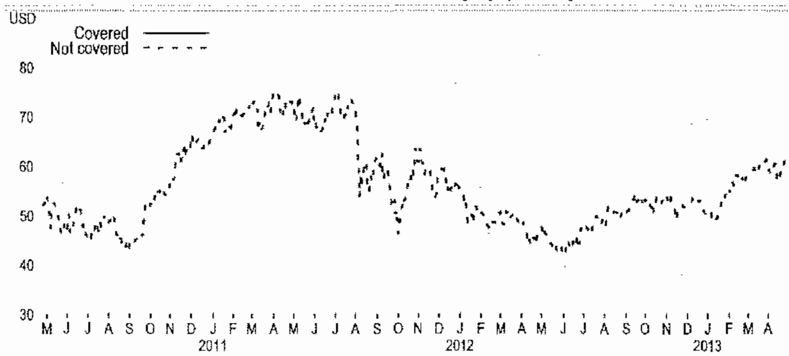
* Indicates change

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: Faisel Khan, CFA
Covered since March 22 2013



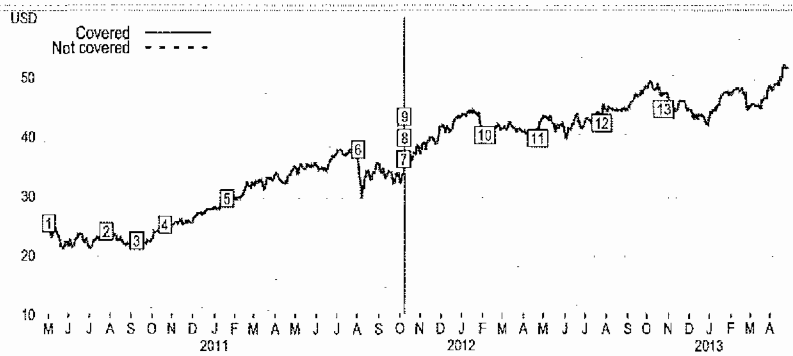
* Indicates change

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] 28-Apr-10	2M	*25.00	24.43
[2] 27-Jul-10	2M	*25.50	23.96
[3] 9-Sep-10	2M	*23.75	22.17
[4] 21-Oct-10	2M	*26.00	24.61
[5] 20-Jan-11	2M	*28.75	29.12
[6] 2-Aug-11	2M	*36.00	35.75
[7] 7-Oct-11	*1M	*37.50	33.96
[8] 8-Oct-11	Stock rating system changed		
[9] 8-Oct-11	*1	37.50	33.96
[10] 3-Feb-12	*2	*43.00	40.85
[11] 23-Apr-12	2	*45.00	41.09
[12] 25-Jul-12	2	*46.00	43.12
[13] 25-Oct-12	2	*49.00	47.25

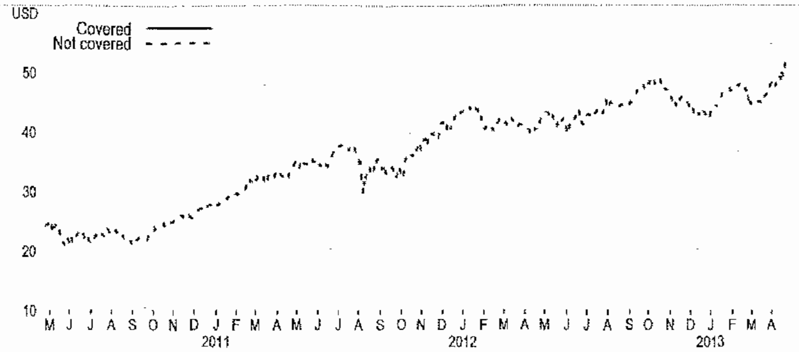
* Indicates change

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



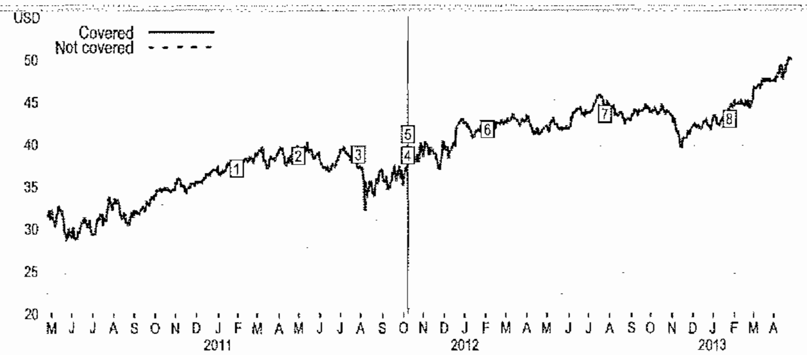
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	31-Jan-11	*2M	*41.00	37.24
2	2-May-11	2M	*43.00	39.59
3	28-Jul-11	*1M	*45.00	37.09
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	45.00	36.78
6	3-Feb-12	1	*47.00	42.68
7	25-Jul-12	*2	*50.00	44.12
8	25-Jan-13	2	*48.00	44.37

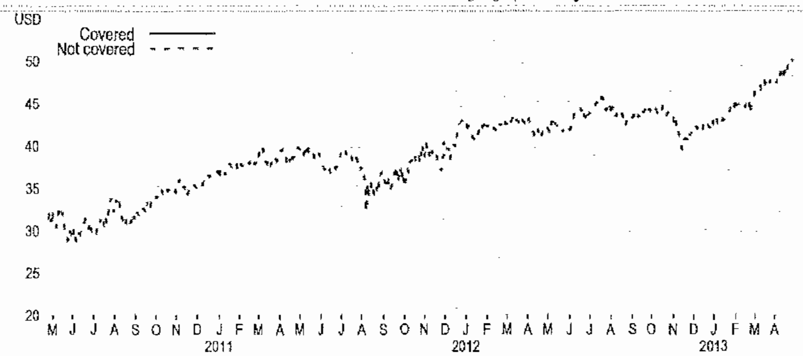
* Indicates change

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



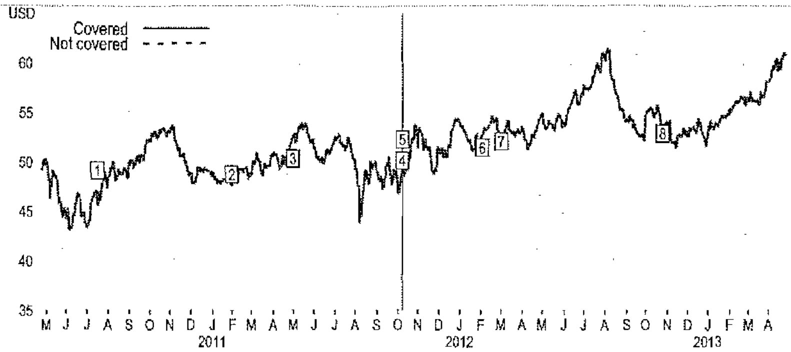
* Indicates change

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	16-Jul-10	3H	*44.00	45.60
2	31-Jan-11	*2H	*46.00	47.59
3	2-May-11	*2M	*51.00	52.48
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*2	51.00	48.42
6	3-Feb-12	2	*56.00	52.72
7	2-Mar-12	2	*55.00	52.07
8	25-Oct-12	2	-	53.85

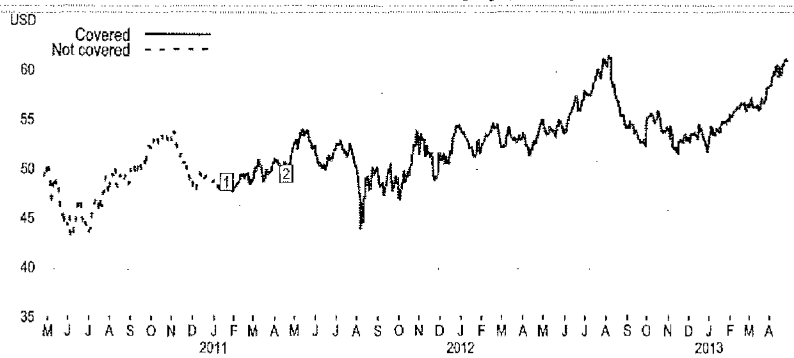
* Indicates change

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

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of CenterPoint Energy Inc. Citigroup Global Markets Inc. acted as an advisor to CenterPoint Energy Inc. in the formation of the joint venture with OGE Energy and ArcLight Capital.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Sempra Energy

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of NiSource Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Williams Companies Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Questar Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of EQT Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Spectra Energy Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Enbridge Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Integrys Energy Group Inc

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Sempra Energy, Cheniere Energy Inc, Brookfield Infrastructure Partners, NiSource Inc, The Williams Companies Inc, EQT Corporation, Spectra Energy Corp, Enbridge Inc..

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Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from CenterPoint Energy Inc, Sempra Energy, Brookfield Infrastructure Partners, NiSource Inc, The Williams Companies Inc, Enbridge Inc., Oneok Inc.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from CenterPoint Energy Inc, Sempra Energy, UGI Corp, Atmos Energy Corp, Brookfield Infrastructure Partners, NiSource Inc, The Williams Companies Inc, EQT Corporation, AGL Resources Inc, Spectra Energy Corp, Enbridge Inc., Oneok Inc, Southwest Gas Corp, Integrys Energy Group, Inc. in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): CenterPoint Energy Inc, Sempra Energy, UGI Corp, Cheniere Energy Inc, Brookfield Infrastructure Partners, NiSource Inc, The Williams Companies Inc, EQT Corporation, Spectra Energy Corp, Enbridge Inc., Oneok Inc, Integrys Energy Group, Inc..

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Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: CenterPoint Energy Inc, Sempra Energy, UGI Corp, Brookfield Infrastructure Partners, NiSource Inc, The Williams Companies Inc, EQT Corporation, Spectra Energy Corp, Enbridge Inc., Oneok Inc, Integrys Energy Group, Inc..

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The Firm is a market maker in the publicly traded equity securities of Integrys Energy Group, Inc..

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Research Equity Ratings Distribution

	12 Month Rating			*Relative Rating*		
Data current as of 31 Mar 2013	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	48%	39%	12%	7%	87%	7%
% of companies in each rating category that are investment banking clients	53%	49%	43%	65%	49%	51%

Guide to Citi Research Fundamental Research Investment Ratings:

Citi Research stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Citi Research management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: Citi Research may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings,** which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

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Edward Jones
MAKING SENSE OF INVESTING

ATMOS ENERGY
(NYSE: ATO)

April 16, 2013
Rating Downgrade

Rating	**SELL**
Suitability	Growth & Income
Dividend Outlook	Rising
Price	$43.28
Dividend Yield	3.2%
Sector	Utilities
Subsector	Natural Gas
Recommended Sector Weight	4%

Company Overview

Atmos Energy (ATO) is one of the largest gas distribution company in America, with more than three million customers across nine states stretching from Colorado to Virginia. The company was incorporated in Dallas, Texas, in 1906.

Revenues International	0%

Valuation & Earnings

52-Week Range	$43.53 – $30.82
Market Cap.	$3.1bn.
LT EPS Growth Estimate	6%
Est. Earnings Date	May 2, 2013

	FY2012A	FY2013E	FY2014E
Earnings	2.31	2.50	2.60
P/E	18.7x	17.3x	16.6x
PEGY	2.0x	1.9x	1.8x

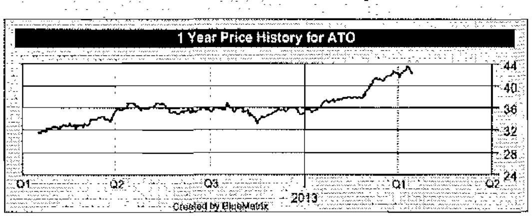
Dividends & Income

Dividend/Yield	$1.40/3.2%
LT Dividend Growth Estimate	3%
5-Yr. Trailing Growth	2%
Last Change	1% / Nov 7, 2012
Paid Since	1984
Consecutive Years Increased	24
Payout Ratio ('13 Est. EPS)	54%
Dividends Paid	Mar, Jun, Sep, Dec

Debt Ratings

Standard & Poor's/Moody's	BBB+ /Baa1

Analyst	Andy Pusateri, CFA



INVESTMENT SUMMARY

We are downgrading shares of Atmos Energy to a Sell from a Hold and maintaining the Growth & Income suitability. Shares have performed very well recently as Atmos has raised its outlook for growth and invested in the regulated business. We view this as a positive for the company, but we feel the potential growth is already more than priced into shares. Over the last five years, Atmos has traded at an average discount to the group of 15%. Shares now trade at just a 2% discount to a group that includes pure gas distribution companies with no exposure to nonregulated businesses.

Improving Growth Outlook From Regulated Operations Priced into Shares, in Our View - We expect Atmos' regulated utility operations will continue to provide the majority of earnings for the foreseeable future and cover the dividend. We expect regulated earnings to grow at a higher rate than nonregulated earnings over the short term driven by new infrastructure investments. We expect that regulated operations will provide more predictable earnings due to recent rate design changes in Texas that allow for a higher customer base charge and a lower commodity charge. We believe these positives are already more than factored into the share price.

Dividend Growth Improving - Atmos has increased its dividend for 24 consecutive years and currently provides a competitive yield. As utility stocks have done well, the average yields have declined. The dividend growth for Atmos over the past couple of years has been far less than the industry average. We expect Atmos to increase the rate at which it is growing the dividend beginning in late 2013. However, we still believe it is possible for growth to lag the industry average.

Some Exposure to Nonregulated Businesses - Atmos has stated its preference for focusing on the regulated business. While we view this positively, we do note that the company does still have exposure to nonregulated businesses, which in our view deserve to trade at lower multiples than fully regulated gas distribution companies.

Valuation - Atmos is currently trading in line with peers on several measures. Shares are trading at a significant premium to historical averages, both on a relative and absolute basis. We believe that Atmos deserves to trade closer to the group multiple than it has historically; however, it still deserves to trade at a discount given its exposure to nonregulated assets. We expect shares to underperform the utility industry.

Risks - The primary risks to the Sell recommendation are stronger-than-expected earnings growth driven by cold winter weather or strong regulatory decisions. Lower increases in operating expenses would also cause shares to perform well in our opinion. In addition, utility stocks could continue to outperform in prolonged low interest rate environments.

Please see important disclosure information on page 4 of this report.

Edward Jones

RECENT NEWS AND ANALYSIS

04/16/13: We are downgrading shares of Atmos Energy to a Sell from a Hold and maintaining the Growth & Income suitability. Shares have performed very well recently as Atmos has raised its outlook for growth and invested in the regulated business. We view this as a positive for the company, but we feel the potential growth is already more than priced into shares. Over the last five years, Atmos has traded at an average discount to the group of 15%. Shares now trade at just a 2% discount to a group that includes pure gas distribution companies with no exposure to nonregulated businesses.

02/07/13: Atmos Energy reported earnings per share for the first quarter of 2013 of $0.88 per share. After accounting for noncash unrealized net gains and earnings from discontinued operations of approximately $0.17, we calculate adjusted earnings of $0.71. This is below the consensus estimate of $0.77 per share. The gas distribution business had a decrease in net profit, primarily reflecting a net decrease in rates. The transmission and storage segment increased earnings due to higher revenue from the Gas Reliability Infrastructure Program. Nonregulated profit increased compared to the same quarter last year due to higher asset optimization margins. The company also said it expects 2013 earnings to be at the high end of previously stated guidance of $2.40 to $2.50 per share. We were already at $2.50 for our estimate. That number excludes earnings from unrealized margins.

11/08/12: Atmos Energy reported full-year 2012 earnings of $2.42 per share. After excluding gains on asset sales and several one-time items, we calculate earnings from continuing operations of $2.31. These results exclude net unrealized margins. This compares to our estimate of $2.30 and 2011 earnings of $2.34. Atmos had increased profits at the natural gas distribution and regulated transmission and storage segments due largely to higher rates. Nonregulated profits decreased, reflecting a decrease in realized margins from gas sales. These results were affected by warmer-than-normal weather. Atmos initiated 2013 guidance of $2.40 to $2.50 per share. We are currently comfortable with our estimate of $2.50.

Atmos also announced an increase in the quarterly dividend. The new dividend will be $0.35 per share. This represents a 1.4% increase to the previous dividend. The new quarterly dividend will be paid December 10, 2012 (ex-date: November 21, 2012).

COMPANY OUTLOOK

Atmos is one of the nation's largest pure-gas distribution companies. In the past, some of the keys to Atmos' strategy has been to acquire relatively small utilities at a reasonable price and add value by reducing costs through synergies with its existing business. The company has made an effort to acquire utilities in different states in order to diversify in terms of potential impacts from both weather and regulatory risk. The company uses a disciplined approach, and its plan is to only acquire if the acquisition will likely increase profitability and is complementary to Atmos' business model. In August of 2012, Atmos completed the sale of distribution assets in Missouri, Illinois and Iowa to Liberty Energy. The proceeds were used to pay down commercial paper. We expect the company to continue to focus on the core natural gas business. The regulated utility can do this by taking advantage of infrastructure mechanisms that allow them to earn returns on investments.

Atmos has stated that they are looking to complement regulated businesses through select lower-risk nonregulated operations. the nonregulated segment has storage and transportation, and delivered gas segments as well as asset optimization. We view the asset optimization portion as the most unpredictable segment in the business. This segment is impacted by gas price spread values. Earnings in this segment could be less meaningful due to low commodity price volatility. The non-regulated group will focus on the delivered gas business. The strategy here is to increase annual sales and improve margins. As a whole, we expect Atmos to grow earnings at an average rate of 6% over the next three to five years. We would expect non-regulated earnings in total to be less than 10% of the total.

Regulatory Overview
Atmos' service area covers 9 states in the U.S. Through its broad geographic operations, Atmos is able to diversify its regulatory risks to some degree. Dealing with many regulatory authorities lessens the effect of potential negative outcomes. Given the large number of states in which the company operates, Atmos could be filing a rate case in multiple states each year.

In addition, Atmos has been successful in implementing a Gas Reliability Infrastructure Program (GRIP) or other form of accelerated capital recovery in parts of its service area. GRIP allows Atmos to include in its rate base annually approved capital costs incurred in the prior calendar year without having to file for a rate case every year. We believe Atmos has done a decent job at maintaining regulatory relationships with a lot going on.

INDUSTRY OUTLOOK

We believe the utility sector as a whole appears to be better positioned to increase earnings than it was in the recent past, and we see average annual earnings growth of about 5% going forward. This improved growth outlook primarily reflects our expectations for more spending on utility infrastructure going forward. As utilities spend on infrastructure and environmental needs, they can earn a regulated return on the invested capital. As a result, earnings can grow faster than they otherwise would. However, this improved earnings growth, as well as the sustained low interest rate environment, have driven stock prices significantly higher, and many utility stocks are now trading at or near all-time highs.

It is our view that the utility industry in general has underinvested in infrastructure in recent decades. As a result, much of the utility assets in the U.S. today are old and are in need of maintenance, repair or outright replacement. The various areas needing investment going forward include electric transmission wires, power plants, natural gas pipelines and water utility infrastructure. This investment will be needed to address the effects of aging infrastructure as well as to meet demand related to natural customer growth. Many estimates forecast the potential investment needs to be several hundreds of billions of dollars over the next two or three decades. It is this spending that we believe will accelerate the future earnings growth of many utilities.

Environmental concerns related to the issue of global warming are also helping to drive increased investment in renewable energy and retrofits of many existing power plants with the main goal of reducing emissions.

Gas distribution remains a heavily regulated business. While the price of the natural gas is passed on to consumers without any profit attached, high natural gas prices do pose a risk as they can lower usage, accelerate bad debt expense and increase regulatory oversight. We see continued growth in natural gas use despite today's higher prices.

Natural gas pipelines are regulated primarily by the federal government. Growing natural gas demand is leading to expansions of many pipelines. We see companies selectively expanding pipelines while growing earnings with minimal risk, as there are typically long-term contracts in place prior to construction.

As utilities spend on infrastructure and environmental needs, they can earn a regulated return on the invested capital. As a result, earnings can grow faster than they otherwise would. This is why we believe the growth outlook for the industry is improving.

FINANCIAL POSITION

Atmos is rated BBB+ by Standard & Poor's and A- by Fitch. Moody's rating is Baa1. The company's debt to total capital is in line with the peer average. We expect the company to target the debt-to-capital ratio in the 50% to 55% range. Liquidity also appears adequate.

DIVIDEND OUTLOOK

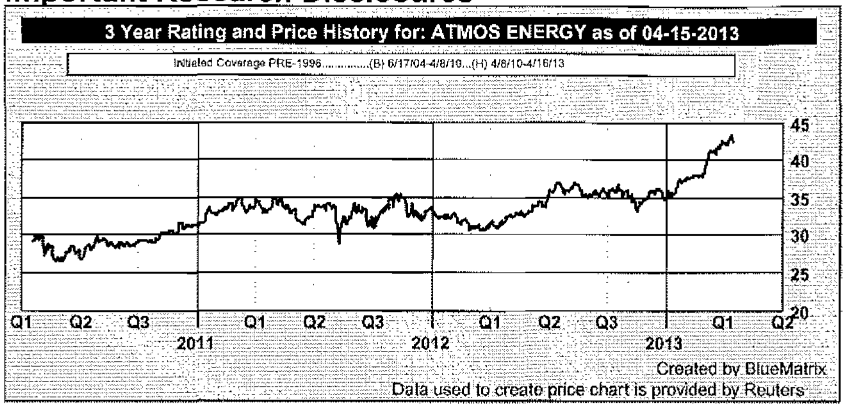
Atmos has increased its dividend for 24 consecutive years and currently provides an attractive yield. The company most recently increased the dividend 1.4% in November 2012. We expect the company to accelerate the rate at which it increases the dividend and expect average annual increases of approximately 3% over the next three to five years. This is below the industry average. The payout ratio is 53% based on our 2013 estimate. This is slightly lower than the industry average. We continue to expect the dividend to be covered by regulated utility operations.

RECENT STOCK PERFORMANCE

Annualized Total Returns	1Yr	3Yrs	5Yrs
ATMOS ENERGY	33%	17%	14%
S&P 500 Utilities Index	13%	13%	4%
S&P 500 Index	14%	13%	5%

Price ending Mar 4, 2013
Source: FactSet
These are unmanaged indexes and cannot be invested in directly. Past performance does not assure future results.

Important Research Disclosures



April 16, 2013	BUY	HOLD	SELL
Stocks	48%	47%	4%
Investment Banking Services	4%	5%	21%

The table lists the percent of stocks we follow globally in each of our rating categories. Investment banking services indicate the percentage of those companies that have been investment banking clients within the past 12 months.

Analyst Certification

I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Andy Pusateri, CFA

Buy (B)	Hold (H)	Sell (S)	FYI (FI)
Buy - Our opinion is to Buy this stock. We believe the valuation is attractive and total return potential is above average.	Hold - Our opinion is to keep this stock. We believe the stock is fairly valued and total return potential is about average. Or a special situation exists, such as a merger, that warrants no action.	Sell - Our opinion is to Sell this stock. We believe the stock is overvalued and total return potential is below average. In some cases we expect fundamentals to deteriorate considerably and/or a recovery is highly uncertain.	FYI - For informational purposes only; factual, no opinion.

Important Disclosures

- Initiated Coverage PRE-1996..............(B) 6/17/04-4/8/10...(H) 4/8/10-4/16/13
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- All the proper permissions were sought and granted in order to use any and all copyrighted materials/sources referenced in this document.
- Dividend Outlook: Rising – We believe the dividend is stable at the current level and is likely to increase based on historical trends, the current payout ratio, and expected future earnings and cash flow; Stable – We believe the dividend is stable at the current level but is unlikely to increase at a rate greater than or equal to 3% on a regular basis; At Risk – We believe the dividend is at risk of being reduced or eliminated; No Dividend – This company does not pay a dividend.
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- **Opinions used from June 13, 2003 - July 2, 2012: BUY (B)** - Our opinion is to Buy this stock. We believe its fundamentals and/or valuation are compelling. **HOLD (H)** - Our opinion is to keep this stock. We believe the fundamentals and/or valuation are stable. Or a special situation exists, such as a merger, that warrants no action. **SELL (S)** - Our opinion is to Sell this stock. We believe the fundamentals are deteriorating considerably and/or a recovery is highly uncertain. Or we believe the stock is significantly overvalued. **FYI** - For your information; factual, no opinion.
- Dividends can be increased, decreased or totally eliminated at any point without notice.
- This opinion is based on information believed reliable but not guaranteed. The foregoing is for INFORMATION ONLY. Additional information is available on request. Past performance is no guarantee of future results.
- Our long-term earnings growth estimate is our expectation for growth over the course of a full economic cycle. This "normalized" figure avoids distortions which can occur if beginning- or ending-year results are impacted by one-time items or extreme peaks or troughs within the cycle.
- The S&P 500 Index is based on the average performance of 500 widely held common stocks. The S&P 500 Sector Indexes are subsets of the S&P 500 Index. These are unmanaged indexes and cannot be invested in directly. Past performance does not assure future results.

February 27, 2013

DATA UPDATE

Atmos Energy Corp. (ATO)

Neutral

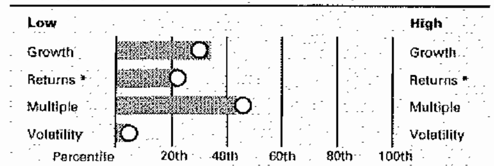
Equity Research

Data Update: Revising estimates

Changes and Implications

We have updated our estimates. We do not view these changes as material, and there is no change to our investment thesis, rating or price target.

Investment Profile



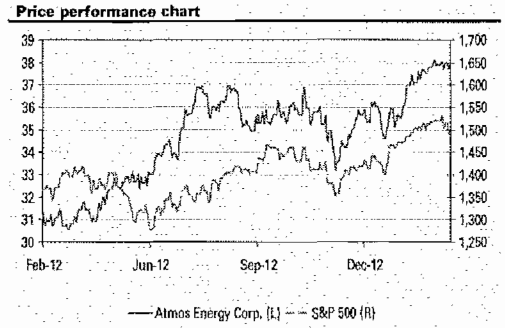
* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price ($)	37.85
12 month price target ($)	38.00
Market cap ($ mn)	3,456.0
Dividend yield (%)	3.7
Net margin (%)	6.5
Debt/total capital (%)	54.8

	9/12	9/13E	9/14E	9/15E
Revenue ($ mn)	3,438.5	3,502.5	3,612.8	3,723.1
EPS ($)	2.16	2.50	2.75	3.00
P/E (X)	15.5	15.1	13.8	12.6
EV/EBITDA (X)	8.0	8.1	7.5	7.0
ROE (%)	8.5	9.4	9.8	10.1

	12/12	3/13E	6/13E	9/13E
EPS ($)	0.71	1.17	0.38	0.25

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	9.2	7.4	19.5
Rel. to S&P 500	2.6	1.3	9.0

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/26/2013 close.

INVESTMENT LIST MEMBERSHIP
Neutral

Coverage View: Cautious

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Atmos Energy Corp.: Summary Financials

Profit model ($ mn)	9/12	9/13E	9/14E	9/15E
Total revenue	3,438.5	3,502.5	3,612.8	3,723.1
Cost of goods sold	(2,114.3)	(2,047.8)	(2,047.8)	(2,047.8)
SG&A	(635.0)	(672.6)	(680.7)	(694.5)
R&D	0.0	0.0	0.0	0.0
Other operating profit/(expense)	0.0	0.0	0.0	0.0
ESO expense	(0.4)	(0.4)	(0.4)	(0.4)
EBITDA	**688.8**	**781.6**	**883.8**	**980.4**
Depreciation & amortization	(237.5)	(252.4)	(287.6)	(303.6)
EBIT	**451.2**	**529.2**	**596.2**	**676.9**
Net interest income/(expense)	(141.2)	(158.6)	(198.9)	(232.4)
Income/(loss) from associates	0.0	0.0	0.0	0.0
Others	(14.6)	1.7	2.4	2.4
Pretax profits	**295.4**	**372.4**	**399.7**	**446.9**
Provision for taxes	(98.2)	(144.4)	(148.3)	(171.5)
Minority interest	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	**197.2**	**228.0**	**251.4**	**275.4**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**197.2**	**228.0**	**251.4**	**275.4**
Post tax exceptionals	19.5	15.9	0.0	0.0
Net income (post-exceptionals)	**216.7**	**243.9**	**251.4**	**275.4**
EPS (basic, pre-except) ($)	**2.19**	**2.52**	**2.76**	**3.01**
EPS (diluted, pre-except) ($)	**2.16**	**2.50**	**2.75**	**3.00**
EPS (basic, post-except) ($)	**2.40**	**2.69**	**2.76**	**3.01**
EPS (diluted, post-except) ($)	**2.38**	**2.68**	**2.75**	**3.00**
Common dividends paid	(125.8)	(127.5)	(135.3)	(149.5)
DPS ($)	1.38	1.40	1.48	1.63
Dividend payout ratio (%)	63.1	55.6	53.6	54.1

Growth & margins (%)	9/12	9/13E	9/14E	9/15E
Sales growth	(20.9)	1.9	3.1	3.1
EBITDA growth	3.0	13.5	13.1	10.9
EBIT growth	2.1	17.3	12.6	13.5
Net income (pre-except) growth	(0.9)	15.6	10.3	9.6
EPS growth	(0.8)	15.1	9.6	9.0
Gross margin	38.5	41.5	43.3	45.0
EBITDA margin	20.0	22.3	24.5	26.3
EBIT margin	13.1	15.1	16.5	18.2

Cash flow statement ($ mn)	9/12	9/13E	9/14E	9/15E
Net income	216.7	243.9	251.4	275.4
D&A add-back (incl. ESO)	246.6	253.5	287.6	303.6
Minority interest add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	(3.0)	(60.4)	0.0	0.0
Other operating cash flow	126.6	49.2	0.0	0.0
Cash flow from operations	**586.9**	**486.1**	**539.0**	**579.0**
Capital expenditures	(732.9)	(795.0)	(700.0)	(710.0)
Acquisitions	0.0	0.0	0.0	0.0
Divestitures	128.2	0.0	0.0	0.0
Others	(4.6)	(1.3)	0.0	0.0
Cash flow from investing	**(609.3)**	**(796.3)**	**(700.0)**	**(710.0)**
Dividends paid (common & pref)	(125.8)	(127.5)	(135.3)	(149.5)
Inc/(dec) in debt	97.1	506.9	275.0	300.0
Other financing cash flows	(16.1)	11.9	20.0	20.0
Cash flow from financing	**(44.8)**	**391.3**	**159.7**	**170.5**
Total cash flow	**(67.2)**	**81.2**	**(1.2)**	**39.4**

Balance sheet ($ mn)	9/12	9/13E	9/14E	9/15E
Cash & equivalents	64.2	145.4	144.2	183.6
Accounts receivable	234.5	500.9	500.9	500.9
Inventory	256.4	174.1	174.1	174.1
Other current assets	272.8	265.0	265.0	265.0
Total current assets	**828.0**	**1,085.4**	**1,084.2**	**1,123.6**
Net PP&E	5,475.6	6,007.4	6,419.8	6,826.2
Net intangibles	740.8	740.8	740.8	740.8
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	451.3	463.5	463.5	463.5
Total assets	**7,495.7**	**8,297.2**	**8,708.3**	**9,154.2**
Accounts payable	215.2	367.3	367.3	367.3
Short-term debt	571.1	981.0	1,006.0	1,006.0
Other current liabilities	489.7	446.7	446.7	446.7
Total current liabilities	**1,276.0**	**1,795.1**	**1,820.1**	**1,820.1**
Long-term debt	1,956.3	2,056.4	2,306.4	2,606.4
Other long-term liabilities	1,904.2	1,938.8	1,938.8	1,938.8
Total long-term liabilities	**3,860.5**	**3,995.2**	**4,245.2**	**4,545.2**
Total liabilities	**5,136.4**	**5,790.2**	**6,065.2**	**6,365.2**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**2,359.2**	**2,507.0**	**2,643.1**	**2,789.0**
Minority interest	**0.0**	**0.0**	**0.0**	**0.0**
Total liabilities & equity	**7,495.7**	**8,297.2**	**8,708.3**	**9,154.2**

Additional financials	9/12	9/13E	9/14E	9/15E
Net debt/equity (%)	104.4	115.4	119.9	122.9
Interest cover (X)	3.2	3.3	3.0	2.9
Inventory days	47.1	38.4	31.0	31.0
Receivable days	27.0	38.3	50.6	49.1
BVPS ($)	25.88	27.54	28.92	30.36
ROA (%)	2.7	2.9	3.0	3.1
CROCI (%)	8.7	7.7	7.3	7.4
Dupont ROE (%)	**8.4**	**9.1**	**9.5**	**9.9**
Margin (%)	5.7	6.5	7.0	7.4
Turnover (X)	0.5	0.4	0.4	0.4
Leverage (X)	3.2	3.3	3.3	3.3
Free cash flow per share ($)	(1.62)	(3.41)	(1.77)	(1.43)
Free cash flow yield (%)	(4.8)	(9.0)	(4.7)	(3.8)

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Disclosure Appendix

Reg AC

I, Theodore Durbin, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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GS SUSTAIN

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Disclosures

Coverage group(s) of stocks by primary analyst(s)

Theodore Durbin: America-Diversified Pipelines, America-Energy MLPs, America-Gas Utilities. Steve Sherowski: America-Energy MLPs.

America-Diversified Pipelines: Enbridge Inc., Kinder Morgan, Inc., ONEOK, Inc., Spectra Energy Corp., The Williams Companies, Inc., TransCanada Corp..

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Goldman Sachs had an investment banking services client relationship during the past 12 months with: Atmos Energy Corp. ($37.85)

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Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	31%	55%	14%	48%	41%	36%

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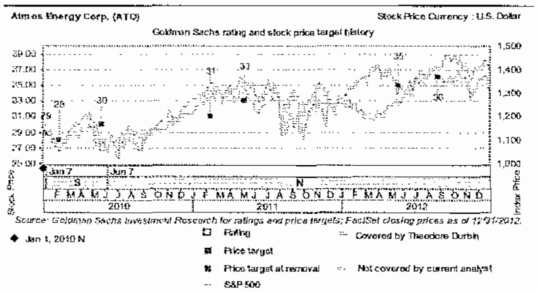
Price target and rating history chart(s)



The price targets shown should be considered in the context of all prior published Goldman Sachs research, which may or may not have included price targets, as well as developments relating to the company, its industry and financial markets.

Regulatory disclosures

Disclosures required by United States laws and regulations

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February 25, 2013

Americas: Pipelines and MLPs

Equity Research

Pipeline/MLP Essentials: OKE, USAC highlight coming 4Q earnings

Industry context

Earnings season for 4Q2012 is winding down for Pipelines & MLPs, but the ONEOK (OKE/OKS) and USA Compression (USAC) reports on Tuesday, Feb 26 highlight this week's offerings.

ONEOK: Commodity prices/spreads present mild downside risk

Earnings: We forecast OKE EPS of $0.49 versus consensus $0.45 and 4Q11 $0.54. We model a YoY decline in Energy Services segment earnings and lower OKS earnings. We forecast OKS EPU of $0.70 vs. consensus $0.62 and 4Q11 $1.26. Lower Natural Gas Liquids (NGL) "optimization" margins, and higher debt/unit count are the key drivers of the YoY decline.

Guidance: For OKE, we forecast 2013 EPS/net income of $1.85/$377mn, versus consensus of $1.94/$410mn, and net income guidance of $430mn.

Commodity prices and spreads: ONEOK's guidance assumes an NGL composite barrel of $0.76/gallon and a natural gas price of $4.05/MMBtu. Its NGL assumption looks reasonable versus current pricing, but we expect lower natural gas prices which will weigh on its percent-of-proceeds revenues. ONEOK's guidance also assumed a Conway-to-Mont Belvieu NGL spread of $0.19/gal – that spread has averaged close to nil YTD, which could weigh on its optimization margins and is likely a driver of our below guidance / consensus earnings outlook.

Capital spending and strategy: ONEOK suffered a blow when it canceled its $1.6bn Bakken oil pipeline in November, a project which would have diversified its asset exposure and increased its fee-based earnings mix. We will listen for management's plans to "backfill" that project.

USAC: Pricing and demand trend commentary is key

USAC will report its first quarter as a publicly traded company on Tuesday. We initiated coverage of USAC with a Buy rating on Feb 10, as we believe current valuation misprices its solid long-term growth outlook. That said, the next several quarters will be key to increase investor confidence in the stability of its business model and growth potential. To that end, instead of the quarterly results (which were previewed in the prospectus) we believe management commentary around pricing and demand trends will be key.

We update estimates for HEP and ATO.

TABLE OF CONTENTS

RELATED RESEARCH

The Williams Companies, Inc. (WMB) – *Strong FCF underpins 20% annual dividend growth; remains CL-Buy* (February 22, 2013)

Sunoco Logistics Partners L.P. (SXL) – *Strong 4Q; 2013 guidance implies best-in-class distribution growth* (February 21, 2013)

Enbridge Inc. (ENB.TO) – *Solid 4Q, but organic project growth is the real story* (February 20, 2013)

Plains All American Pipelines (PAA) – *Best levered to NA energy infrastructure growth; Buy the weakness* (February 5, 2013)

Magellan Midstream Partners (MMP) – *Guidance driven pull-back represents buying opportunity* (February 5, 2013)

Assume coverage of liquids MLPs; HEP to Sell, BPL to Neutral (January 28, 2013)

Kinder Morgan Inc. (KMI), Kinder Morgan Energy Partners (KMP), Kinder Morgan Management (KMR), El Paso Pipeline Partners (EPB) – *Stable, fee-based income and growth, prefer KMI and EPB* (January 17, 2013)

Takeaways from the 2013 Goldman Sachs Energy Conference (January 11, 2013)

MLP-ification: Focus on energy (January 7, 2013)

Delek Logistics Partners (DKL) – *Initiate at Buy: Lower-risk cash flows with growth visibility* (November 27, 2012)

Raising Pipelines & MLPs to Attractive: Yield, growth, and shale (November 5, 2012)

Leaping into liquids infrastructure and capital allocation; WMB CL-Buy (February 28, 2012)

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Earnings summary

Remain Sell-rated on HEP after 4Q12 results

Holly Energy Partners (HEP, Sell) reported 4Q2012 adjusted EPU of $0.37, roughly in line with our estimate and consensus of $0.38/$0.38, largely driven by increased operating costs and higher interest expense, partially offset by higher pipeline tariff rates. We raise our 2013/2014/2015 EPU by 4% each on 4Q12 carryover.

We maintain our Sell rating and our 12-month yield-based price target of $35. We expect HEP, which is currently yielding 160 bps below the peer average (4.8% vs. 6.4%) to post annual mid-single digit distribution growth over the next several years which is in-line with the MLP sector. While HEP offers cash flow stability, we view its premium valuation as not reflective of its current growth outlook. We believe HEP will continue to rely on its parent for asset dropdowns to drive future distribution growth given its limited organic project backlog visibility. We see two sources of potential negative catalysts for HEP units including: (1) slower throughput on networks assets, (2) project spending below expectations.

Upside risks include accretive asset acquisitions, organic growth project announcements, or a stronger-than-expected demand recovery.

Exhibit 1: Holly Energy Partners (HEP) estimate revision table
EPU/DCF/Distribution in $ per unit, Acquisitions/Equity offerings in millions of $

					2013E		2014E		2015E		2016E	
HEP	1Q13E	2Q13E	3Q13E	4Q13E	New	Old	New	Old	New	Old	New	Old
EPU	$0.35	$0.31	$0.39	$0.45	$1.50	$1.44	$1.55	$1.49	$1.65	$1.59	$1.70	$1.64
DCF	0.57	0.52	0.59	0.66	2.35	2.29	2.40	2.36	2.50	2.46	2.55	2.51
Distribution	0.48	0.48	0.49	0.49	1.93	1.93	2.02	2.02	2.11	2.11	2.20	2.20
Coverage	1.21x	1.09x	1.22x	1.35x	1.22x	1.19x	1.19x	1.17x	1.19x	1.17x	1.16x	1.14x
Acquisitions	0	0	0	0	0	0	0	0	0	0	0	0

Source: Goldman Sachs Research estimates.

Raise 12m target by $2 on ATO due to higher earnings growth; remain Neutral

Atmos Energy (ATO) reported adjusted FY1Q13 EPS of $0.75, below our estimate of $0.85 and consensus of $0.77. Variance to our estimate was largely driven by lower earnings from its regulated natural gas distribution business, partially offset by lower costs. We raise our 2013/2014/2015 EPS estimates by $0.05/$0.05/$0.10 driven by a favorable Mid-Tex rate case ruling vs. our prior estimate and increased regulated pipeline earnings, which more than offset lower earnings at its non-regulated business.

We see the $42.6mn rate increase granted by the FERC at its Mid-Tex gas distribution utility as a positive for ATO, both for the absolute amount as well as the 10.5% ROE achieved, which was higher than our estimate. We raise our long-term Mid-Tex earnings estimates as we apply this higher ROE to its robust rate base growth driven by pipeline replacement with automatic recovery "trackers." We also remain favorable on its regulated pipeline segment where it enjoys an 11.8% ROE. Atmos will face continued rate case challenges in the years ahead, but overcame a major hurdle in with the Mid-Tex outcome.

We maintain our Neutral rating, but raise our P/E- and DDM-based 12-month target price by $2 to $38, driven by our higher estimates and a 0.25x increase to our target multiple due to increased confidence in ATO's long-term growth rate. ATO currently trades at 15.2X/13.8X 2013/2014 earnings versus its LDC peer group at 16.9X/14.4X.

Key upside risks include higher utility rate case revenues, higher pipeline and marketing margins, and accretive acquisitions; downside risks include less favorable rate case decisions, decreased natural gas time and location spreads, and dilutive acquisitions.

Exhibit 2: Atmos Energy (ATO) estimate revision table
EPS in $ per share, EBITDA in $ mn

	EPS			EBITDA ($mn)	
	New	Old	%	New	Old
2013E	$2.50	$2.45	2.2%	782	778
2014E	$2.75	$2.70	1.8%	884	877
2015E	$3.00	$2.90	3.3%	980	952
2016E	$3.25	$3.10	4.9%	1,060	1,017

Source: Goldman Sachs Research estimates.

Research highlights

- We maintained our Buy rating and raised our 12-month EV/EBITDA-based target price by C$3 to C$50 after **Enbridge Inc. (ENB.TO)** reported 4Q12 EPS of C$0.41 in line with GS and slightly below consensus of C$0.44. We decreased our 2013 EPS estimate by C$0.05 on higher financing costs, maintained 2014/2015, but raised 2016 by C$0.30 as we incorporated additional accretive organic growth projects.

  Enbridge reported a solid fourth quarter, but the real story for 4Q and 2012 was the massive growth in its organic project slate, driven by its well positioned assets which will serve the surge in US and Canadian oil production in the years to come, in our view. We raised our long-term estimate by 11% and now see scope for ENB to produce double-digit EPS and dividend growth well into the back half of the decade driven by $35bn of potential growth capital programs. Importantly, we expected Enbridge to generate this growth via fee-based pipeline projects with volume commitments and limited direct commodity price exposure. We viewed the JV with Energy Transfer to reach eastern Gulf Coast refineries as another strategic coup, not as impactful as the Seaway acquisition, but a meaningful new end market nonetheless. We expected competition for oil infrastructure will continue to increase, including from existing players like TRP.TO, KMP, PAA, and SXL, as well as traditionally natural gas or NGL-focused midstream companies like EPD and SE. However, we believed Enbridge's fortress position should drive continued project wins to meet production growth. Risks include lower pipeline volumes, cost overruns or delays, and higher integrity capex.

  For further details, we refer our readers to our note ***Solid 4Q, but organic project growth is the real story*** (February 20, 2013).

- We maintained our Buy rating and raised our 12-month yield-based target price by $3 to $69 after **Sunoco Logistics (SXL)** reported 4Q12 adjusted EPU of $1.10, beating our estimate and consensus of $0.92. SXL also guided to 2013 distribution growth of around 5% per quarter implying full year growth of around 26% compared to our 18% estimate (vs. 6% peer average growth). The guidance assumes 80/20 ratable/market related cash flows implying 1.25x coverage. We raised our 2013 full year distribution forecast 6.6% to $2.465 per unit.

  The results/guidance reinforced our view that SXL has one of the strongest growth profiles for MLPs under coverage. Beyond projects associated with its $700 million 2013 capex program (underpinned by predominately take-or-pay contracts), new potential growth drivers include Permian Express II, Mariner East II, Mariner South (propane/butane Gulf Coast export facility) and ETP's portion of the proposed $2.5 billion Trunkline conversion. Additionally, SXL is using cash flows from outsized marketing margins (which we conservatively model to normalize through 2016) to help fund fee-based project growth, partially offsetting the need for future equity financing. We lowered our 2013/2014/2015 EPU by 16%/12%/12% to $2.85/$2.85/$3.05, respectively, to reflect accounting changes driven by ETP's acquisition of SXL's GP. However, we raised our distributable cash flow (DCF) estimates (which we view as minimally impacted by the accounting changes) by 6%/12%/12% to $4.25/$4.30/$4.55 per unit. Risks include reduced oil supply growth, lower oil price and spread volatility, or less accretive organic growth projects than we are forecasting.

For further details, we refer our readers to our note ***Strong 4Q; 2013 guidance implies best-in-class distribution growth*** (February 21, 2013).

- We maintained our CL-Buy and our 12-month SOTP-based target price of $45 after **Williams (WMB)** reported 4Q12 adjusted EPS of $0.25, in line with consensus and above our $0.20 estimate. We decreased 2013/2014 EPS by $0.07/$0.15 on lower WPZ earnings. Williams Partners (WPZ, Buy) reported 4Q12 adjusted EPU of $0.44, below GS/consensus of $0.58/$0.48. We lowered 2013/2014 EPU by $0.13/$0.15 on lower midstream segment volumes and margins, partially offset by higher pipeline earnings.

  We reiterated our Buy ratings on WMB (Conviction List) and WPZ. We continued to view WMB as the best dividend growth story in our Diversified Pipeline coverage and expect 20% growth in 2013/2014 and 15% thereafter. Given the strong FCF generation from its ownership of WPZ, and now Access Midstream (ACMP), we saw scope for WMB to extend its 20% growth guidance through 2015, potentially as soon as its May analyst day. We viewed the decreased guidance on commodity prices as relatively conservative, given its ethane price deck effectively minimizes its net 2013 processing & ethylene cracking margins. We were also not overly concerned with WPZ's forecasted <1.0x distribution coverage ratio in 2013, given (1) the current weak NGL margin environment, which likely has more upside risk than downside, particularly for "heavy" NGLs like propane, (2) WPZ's strong growth in fee-based cash flows in the Marcellus/Utica with no commodity price risk, and (3) the high amount of excess cash flow, low leverage, and past supportive actions by parent WMB. We also remained positive on WMB's acquisition of LP & GP interests in the fast-growing ACMP, for both financial and strategic reasons. Risks include lower commodity prices and volumes; cost overruns or delays.

  For further details, we refer our readers to our note ***Strong FCF underpins 20% annual dividend growth; remains CL-Buy*** (February 22, 2013).

Important sector news and developments

- **Plains All American (PAA, CL-Buy, 12-month target price $60)** plans to sell 800 miles of non-core refined product pipelines located in the Rockies and NM/TX to **Magellan Midstream Partners (MMP, Buy, 12-month target price $56).**
- **WGL Holdings (WGL, Sell, 12-month target price $37)** entered into a strategic supply agreement to secure its main source of power and natural gas generation from Shell Energy (RDS).
- **Kinder Morgan Partners (KMP, Neutral, 12-month target price $93)** expands its rail infrastructure via a 210k bpd crude oil rail project which will provide connectivity from various source hubs, including Cushing, West Texas, the Bakken shale and Western Canada, to distribution points on the Houston Ship Channel. The facility will have the capacity to unload up to three unit trains per day of crude oil and condensate as well as provide for up to 100k bpd of barge loading capacity.

Exhibit 3: 4Q12 distribution estimate table

Ticker	Rating	Actuals 4Q11	Actuals 3Q12	Actuals 4Q12	Estimates[1] 4Q12E	Estimates[1] 1Q13E	% Growth Y-o-Y	% Growth Q-o-Q
Diversified MLPs								
EEP	Neutral	$0.533	$0.544	$0.544	$0.544	$0.544	2.1%	0.0%
EPD	Buy	$0.620	$0.650	$0.660	$0.660	$0.670	6.5%	1.5%
KMP	Neutral	$1.160	$1.260	$1.290	$1.290	$1.300	11.2%	2.4%
Average							6.6%	1.3%
Liquids MLPs								
BPL	Neutral	$1.038	$1.038	$1.038	$1.038	$1.050	0.0%	0.0%
DKL	Buy	--	--	$0.224	$0.375	$0.385	NA	NA
HEP	Sell	$0.443	$0.463	$0.470	$0.468	$0.473	6.2%	1.6%
MMP	Buy	$0.408	$0.485	$0.500	$0.500	$0.510	22.7%	3.1%
NS	Neutral	$1.095	$1.095	$1.095	$1.095	$1.095	0.0%	0.0%
PAA[2]	Buy	$0.513	$0.543	$0.563	$0.555	$0.568	9.8%	3.7%
SXL	Buy	$0.420	$0.518	$0.545	$0.538	$0.550	29.8%	5.3%
Average							11.4%	2.3%
Natural Gas MLPs								
BWP	NC	$0.533	$0.533	$0.533	$0.532	$0.532	0.0%	NA
ACMP	Not Rated	$0.390	$0.435	$0.450	$0.450	$0.465	15.4%	3.4%
EPB	Buy	$0.500	$0.580	$0.610	$0.610	$0.620	22.0%	5.2%
ETP	Neutral	$0.894	$0.894	$0.894	$0.894	$0.894	0.0%	0.0%
NKA	Sell	$0.350*	$0.350*	$0.350	$0.350	$0.350	NA	NA
OKS	Neutral	$0.610	$0.685	$0.710	$0.710	$0.720	16.4%	3.6%
PNG	NC	$0.358	$0.358	$0.358	$0.359	$0.360	0.0%	NA
SEP	Neutral	$0.475	$0.490	$0.495	$0.495	$0.505	4.2%	1.0%
SMLP	Neutral	--	--	$0.410	$0.400	$0.413		NA
TCP	Sell	$0.770	$0.780	$0.780	$0.780	$0.780	1.3%	0.0%
WPZ	Buy	$0.763	$0.808	$0.828	$0.823	$0.838	8.5%	2.5%
Average							7.5%	2.3%
Propane MLPs								
FGP	NC	$0.500	$0.500	$0.500	$0.500	$0.500	0.0%	NA
NRGY	NC	$0.375	$0.290	$0.290	$0.292	$0.297	-22.7%	NA
SPH	Neutral	$0.853	$0.853	$0.875	$0.853	$0.853	2.6%	2.6%
Average							-6.7%	2.6%
						Energy MLPs	6.5%	2.1%
						GS Energy MLPs	9.3%	2.1%

Ticker	Rating	Actuals 4Q11	Actuals 3Q12	Actuals 4Q12	Estimates[1] 4Q12E	Estimates[1] 1Q13E	% Growth Y-o-Y	% Growth Q-o-Q
GP MLPs								
AHGP	NC	$0.698	$0.720	$0.740	$0.735	$0.760	6.1%	2.8%
ATLS	NC	$0.250	$0.270	$0.300	$0.283	$0.330	20.0%	11.1%
ETE	NC	$0.625	$0.625	$0.635	$0.638	$0.655	1.6%	1.6%
NSH	Neutral	$0.510	$0.545	$0.545	$0.545	$0.545	6.9%	0.0%
XTXI	NC	$0.120	$0.120	$0.120	$0.120	$0.123	0.0%	0.0%
						GP MLPs	6.9%	3.1%
						GS GP MLPs	20.0%	11.1%
Other MLPs								
CHKR	Neutral	--	$0.630	$0.630	$0.812	$0.790	NA	0.0%
CMLP	NC	$0.500	$0.510	$0.510	$0.515	$0.513	2.0%	2.0%
DPM	NC	$0.670	$0.680	$0.690	$0.690	$0.702	3.0%	3.0%
LINE	Neutral	$0.690	$0.725	$0.725	$0.725	$0.761	5.1%	5.1%
LNCO	Neutral	--	--	$0.710	$0.703	$0.724	NA	NA
NDRO	Buy	--	$0.434	$0.444	$0.429	$0.421	NA	2.1%
NGLS	NC	$0.643	$0.663	$0.680	$0.680	$0.698	5.8%	3.1%
UAN	Neutral	$0.588	$0.496	$0.192	$0.228	$0.489	-67.3%	-61.3%
						Other MLPs	-10.3%	-6.6%
						GS Other MLPs	-67.3%	-19.7%
Diversified Pipelines								
ENB.TO[3]	Buy	$0.245	$0.283	$0.315	$0.283	$0.315	28.6%	11.5%
KMI	Buy	$0.310	$0.360	$0.370	$0.370	$0.380	19.4%	2.8%
OKE	Neutral	$0.280	$0.330	$0.360	$0.345	$0.365	28.6%	9.1%
SE	Neutral	$0.280	$0.280	$0.305	$0.305	$0.305	8.9%	8.9%
TRGP	NC	$0.394	$0.423	$0.458	$0.449	$0.480	16.2%	7.3%
TRP.TO[3]	Neutral	$0.420	$0.440	$0.444	$0.440	$0.471	5.6%	0.8%
WMB[2]	Buy	$0.250	$0.313	$0.339	$0.325	$0.338	35.5%	8.4%
						Div'd Pipes	20.4%	7.0%
						GS Pipes	21.1%	6.9%

1 - NC/CS estimates are based on Thomson One Analytics' consensus
2 - denotes Conviction List stock
3 - in Canadian dollars
NR - Not rated; NC - Not covered
*- denotes distribution to common unitholders; distributions on subordinated units were suspended

Source: FactSet, Thomson One Analytics, Company data, Goldman Sachs Research estimates.

Plains All American (PAA) is our favorite Energy MLP

The Williams Companies (WMB) is our favorite Diversified Pipeline

Exhibit 4: Total return and yield-focused recommendations

Total Return-Focused Recommendations					
For investors focused on a combination of yield and unit/stock price upside through distribution/dividend growth and attractive relative valuation. These names constitute our top picks, and are most closely aligned with our ratings.					
Ticker	**Rating**	**12-month Target Price**	**Unit/Stock Upside**	**Yield**	**Total Return**
NDRO	Buy	$21	28%	10.6%	**38%**
WPZ	Buy	$66	29%	6.4%	**35%**
WMB**	Buy	$45	31%	3.9%	**35%**
EEQ	Neutral	$35	22%	7.6%	**30%**
LINE	Neutral	$47	22%	7.5%	**30%**
Group average			**26%**	**7%**	**33%**
Universe avg			**8%**	**6%**	**15%**

Yield-Focused Recommendations					
For investors focused primarily on yield and return through cash distributions. We believe these names offer the lowest risk among MLPs with an above-average yield.					
MLP	**Rating**	**Yield**	**12-month Target Price**	**Unit Upside**	**Total Return**
NDRO	Buy	**10.6%**	$21	28%	38%
USAC	Buy	**9.3%**	$20	9%	18%
NS	Neutral	**8.7%**	$50	-1%	8%
SPH	Neutral	**8.3%**	$46	9%	17%
EEP	Neutral	**7.8%**	$33	18%	26%
Group average		**8.9%**		**12.7%**	**22%**
Energy MLPs avg (ex-GPs)		**7.0%**		**9.6%**	**17%**

** - denotes a Conviction List stock

Target Prices

-- Energy MLP Methodology: Based on our 12-month distribution growth estimate and MLP-specific normalized yield

-- Diversified Pipelines Methodology: EV-to-EBITDA cash flow analysis

Risks

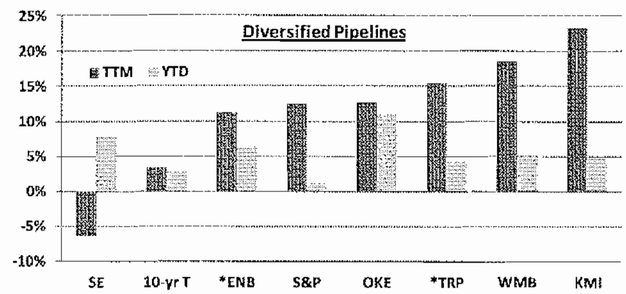
-- Energy MLPs: Access to capital markets and interest rate changes

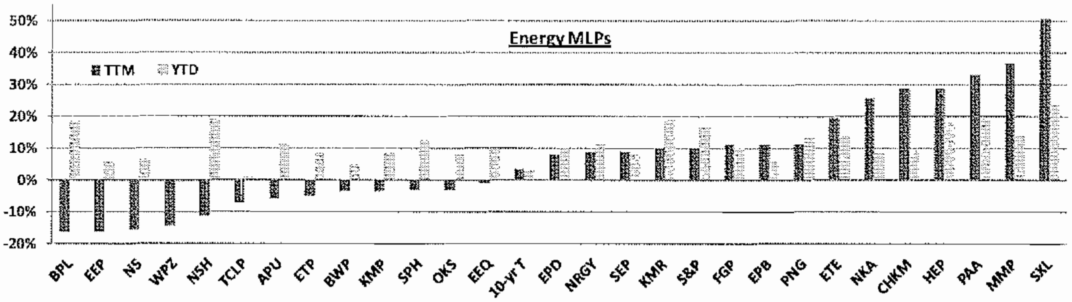
-- GP-focused MLPs: higher/lower-than-expected distribution growth at the underlying MLP would positively/negatively impact GP distribution growth and its valuation

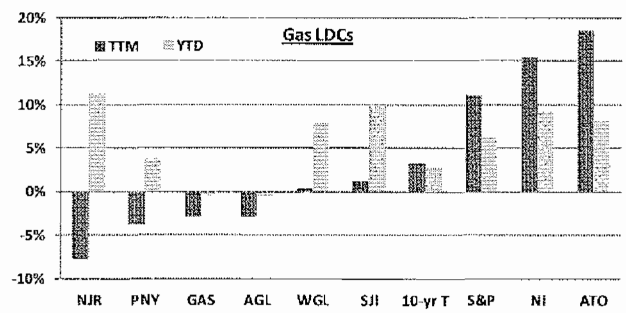
Source: FactSet, Goldman Sachs Research estimates.

Sector price performance

Exhibit 5: Stock price performance, by sector







*Note: Prices in Canadian dollars.

Source: FactSet.

Exhibit 6: Alerian MLP Index returns, by month

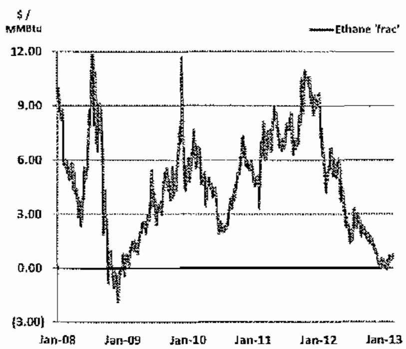
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
1996	3.9%	-1.0%	-0.2%	-0.4%	-2.2%	0.3%	2.1%	3.0%	1.0%	-0.2%	1.4%	0.3%
1997	4.2%	0.4%	-2.4%	-1.8%	2.1%	3.0%	6.9%	1.8%	1.2%	2.4%	-0.3%	-1.1%
1998	2.7%	0.4%	-1.2%	0.6%	-1.2%	-2.0%	-0.3%	-9.7%	7.3%	2.5%	-3.4%	-4.7%
1999	3.2%	-5.2%	-0.5%	6.2%	-2.9%	1.6%	1.5%	1.1%	-4.7%	-2.9%	-8.3%	-3.0%
2000	9.0%	-3.1%	-0.7%	1.0%	0.5%	5.4%	2.7%	2.4%	9.0%	-5.2%	-1.9%	11.1%
2001	8.7%	1.7%	2.6%	9.7%	0.8%	-1.7%	4.4%	3.8%	-2.9%	4.7%	-3.0%	2.1%
2002	-1.9%	-8.3%	7.3%	1.3%	-3.4%	-7.5%	-0.1%	5.7%	-4.2%	-1.2%	-0.1%	3.3%
2003	3.0%	0.9%	1.3%	6.9%	2.7%	3.6%	0.7%	0.2%	1.6%	1.1%	3.7%	5.1%
2004	-2.4%	0.7%	2.8%	-9.4%	-0.8%	2.2%	2.7%	2.8%	5.3%	-1.2%	4.8%	2.4%
2005	4.1%	0.4%	-3.8%	2.3%	0.5%	4.0%	4.5%	-2.8%	1.2%	-2.2%	-4.3%	-2.1%
2006	4.9%	-1.4%	1.0%	1.0%	0.8%	-1.7%	3.4%	1.8%	-1.4%	4.2%	3.6%	1.6%
2007	3.9%	2.2%	4.7%	5.5%	-0.9%	0.7%	-1.7%	-6.4%	-3.1%	5.8%	-4.6%	0.8%
2008	-1.5%	-1.1%	-6.3%	6.7%	0.0%	-4.9%	-2.6%	0.8%	-17.2%	-1.3%	-18.0%	-3.7%
2009	14.0%	-5.4%	0.6%	9.9%	6.0%	-1.7%	11.3%	-4.1%	4.8%	1.8%	5.4%	6.6%
2010	-0.2%	3.7%	2.9%	2.5%	-6.2%	5.6%	6.7%	-3.3%	6.1%	4.5%	1.2%	1.7%
2011	2.5%	2.6%	0.2%	2.6%	-5.7%	1.1%	-2.6%	-1.9%	-4.2%	9.6%	-1.1%	5.7%
2012	1.3%	3.3%	-4.0%	1.7%	-8.3%	3.3%	4.5%	0.6%	2.0%	-0.1%	-1.6%	-3.1%
2013	11.9%	-1.0%	--	--	--	--	--	--	--	--	--	--
Avg	4.0%	-0.6%	0.2%	2.7%	-0.9%	0.7%	2.8%	-0.2%	0.1%	1.3%	-1.6%	1.3%

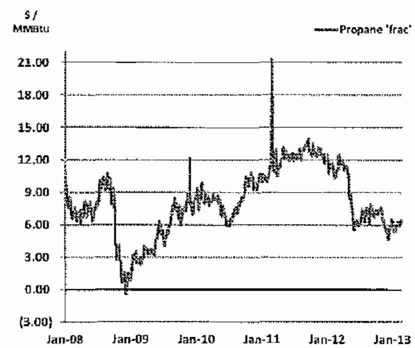
Source: FactSet.

Natural gas liquids (NGLs) data points

Exhibit 7: Natural gas liquids (NGLs) fractionation margins

	Fractionation Margins ($ / MMBtu)				
	Ethane	Propane	Iso-But.	N. But.	Pentanes
2013TD	0.39	5.98	14.60	12.98	17.68
Current	0.67	6.21	12.80	12.05	18.07
2012	3.28	8.28	15.47	13.28	17.02
2011	7.69	12.18	16.83	13.98	17.52
2010	4.70	8.43	11.61	10.17	12.50
2009	3.40	5.35	8.12	6.55	8.14
2008	4.74	6.68	8.55	7.47	10.36
2007	5.19	6.40	8.16	6.93	8.56
2006	3.25	4.44	5.78	4.95	6.48
2005	0.58	1.13	2.73	1.69	2.68
2004	1.75	2.28	2.99	2.62	3.29
2003	0.59	0.89	1.51	1.03	1.24
2002	0.62	1.15	2.11	1.50	1.97
2001	1.15	1.24	1.80	1.28	1.50
2000	1.80	2.10	2.58	2.21	2.44



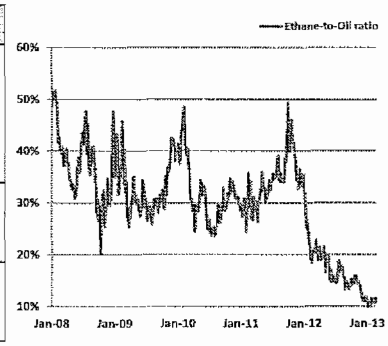


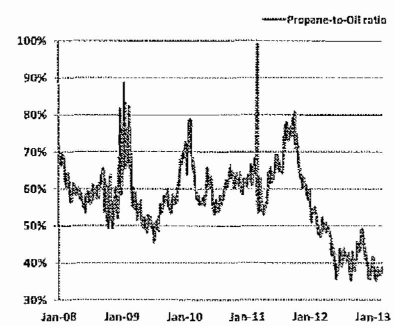
Source: Goldman Sachs Research estimates, Bloomberg.

Exhibit 8: Natural gas liquids (NGLs)-to-Oil ratio

	NGL-to-Oil ratio					
	Ethane	Propane	Iso-But.	N. But.	Pentanes	NGLs*
2013TD	11%	44%	80%	74%	97%	45%
Current	12%	39%	72%	71%	105%	41%
2012	18%	44%	80%	73%	96%	45%
2011	19%	45%	77%	75%	96%	46%
2010	32%	61%	84%	79%	97%	57%
2009	33%	58%	82%	74%	90%	55%
2008	37%	60%	73%	71%	87%	56%
2007	46%	70%	87%	83%	98%	66%
2006	42%	65%	79%	77%	91%	61%
2005	46%	68%	86%	81%	94%	65%
2004	51%	75%	89%	89%	101%	71%
2003	54%	78%	93%	90%	98%	73%
2002	42%	66%	87%	80%	93%	63%
2001	53%	76%	91%	86%	95%	71%
2000	56%	81%	95%	93%	102%	76%

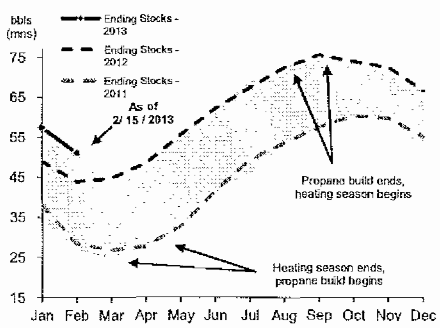
* - ethane: 40%, propane: 30%, iso-butane: 10%, normal butane: 10%, pentanes: 10%

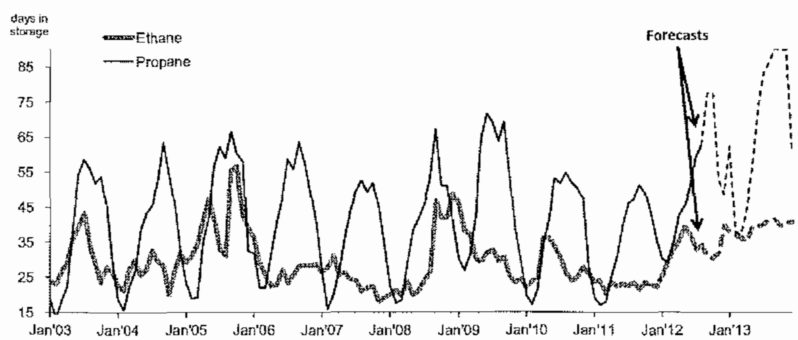




Source: Goldman Sachs Research estimates, Bloomberg.

Exhibit 9: Propane inventories, and Ethane-Propane days in storage





Source: Energy Information Administration (EIA), Goldman Sachs Research estimates.

Exhibit 10: Diversified Pipelines valuation overview

Company	Ticker	Rating	Close 2/22/2013	12-mth Target Price	Total Return Potential	Annual Dividend	Current Yield	Market Cap ($mn)	Ent. Value ($mn)	EPS 2011A	EPS 2012E	EPS 2013E	EPS 2014E	EPS 2015E	EPS 2016E	EPS 5-yr CAGR	P/E 2011A	P/E 2012E	P/E 2013E	P/E 2014E	P/E 2015E	P/E 2016E
Enbridge Inc.	*ENB	Buy	$43.97	$50	16.6%	$1.26	2.9%	$34,956	$55,078	$1.46	$1.59	$1.75	$2.20	$2.55	$3.00	15.5%	30.1	27.6	25.1	20.0	17.2	14.7
Kinder Morgan Inc.	KMI	Buy	37.00	$41	14.8%	1.48	4.0%	38,443	50,993	0.91	1.18	1.65	1.75	1.80	1.90	15.9%	40.7	31.4	22.4	21.1	20.6	19.5
ONEOK, Inc.	OKE	Neutral	47.41	$53	14.8%	1.44	3.0%	9,954	12,331	1.67	1.63	1.85	2.20	2.55	2.75	10.5%	28.4	29.0	25.6	21.5	18.6	17.2
Spectra Energy Corp.	SE	Neutral	29.52	$29	2.4%	1.22	4.1%	19,424	31,730	1.78	1.43	1.50	1.70	1.80	1.95	1.9%	16.6	20.6	19.7	17.4	16.4	15.1
Targa Resources Corp.	TRGP	NC	61.03	--	--	1.83	3.0%	2,581	1,886	0.74	0.86	1.14	1.90	2.47	--	--	82.5	71.0	53.5	32.1	--	--
TransCanada Corp.	*TRP	Neutral	47.54	$48	4.8%	1.84	3.9%	33,516	55,377	2.23	1.92	2.25	2.85	2.90	3.00	6.1%	21.3	24.8	21.1	16.7	16.4	15.9
The Williams Companies	WMB**	Buy	34.44	$45	34.6%	1.36	3.9%	22,129	22,953	1.49	1.11	1.00	1.45	1.65	1.90	4.9%	23.1	31.0	34.4	23.8	20.9	18.1
Pipelines - Average					*14.7%*		*3.5%*									*9.1%*	*34.7*	*33.6*	*28.8*	*21.8*	*18.3*	*16.7*

Company	Ticker	Total Return YTD	Total Return Trailing 12-mths	Last Q Debt/ Cap	2013E EBITDA/ Int exp	2013E Debt/ EBITDA	Debt Rating S&P	Debt Rating Moodys	EBITDA 2011A	EBITDA 2012E	EBITDA 2013E	EBITDA 2014E	EBITDA 2015E	EBITDA 2016E	EBITDA 5-yr CAGR	EV/EBITDA 2011A	EV/EBITDA 2012E	EV/EBITDA 2013E	EV/EBITDA 2014E	EV/EBITDA 2015E	EV/EBITDA 2016E
Enbridge Inc.	*ENB	5.1%	18.4%	67.6%	3.5	5.2	A-	Baa1	$3,326	$3,424	$4,523	$5,210	$5,811	$6,447	14.2%	16.6	16.1	12.2	10.6	9.5	8.5
Kinder Morgan Inc.	KMI	5.8%	18.8%	47.4%	6.9	3.0	BB	Ba2	1,313	2,113	3,370	3,251	3,179	3,354	20.6%	38.8	24.1	15.1	15.7	16.0	15.2
ONEOK, Inc.	OKE	11.7%	15.8%	53.7%	10.3	2.2	BBB	Baa2	1,022	1,021	1,160	1,375	1,485	1,537	8.5%	12.1	12.1	10.6	9.0	8.3	8.0
Spectra Energy Corp.	SE	8.9%	-2.8%	57.9%	4.0	4.8	BBB+	--	2,937	2,625	2,938	3,382	3,506	3,651	4.4%	10.8	12.1	10.8	9.4	9.1	8.7
TransCanada Corp.	*TRP	1.1%	16.7%	58.8%	4.4	5.0	A-	Baa1	4,960	4,469	4,910	5,640	5,768	5,919	3.6%	11.2	12.4	11.3	9.8	9.8	9.4
The Williams Companies	WMB**	5.2%	22.6%	88.3%	16.8	0.7	BBB-	Baa3	2,985	1,552	1,673	2,255	2,530	2,745	-1.7%	7.7	14.8	13.7	10.2	9.1	8.4
Pipelines - Average		*6.3%*	*14.9%*	*62.3%*	*7.6*	*3.5*									*8.3%*	*16.2*	*15.3*	*12.3*	*10.8*	*10.3*	*9.7*

Notes:
* - all figures for TRP and ENB are in Canadian Dollars
** - denotes Conviction List stock

EV = Equity Market Cap + Net Debt + Minority Interest + Preferred + [Other]
NR - Not rated; NC - Not covered
Not covered (NC) company estimates are based on Thomson One Analytics' consensus

Source: Company data, Goldman Sachs Research estimates, FactSet, Thomson One Analytics.

Exhibit 11: LDC valuation overview

Company	Ticker	Rating	Close 02/22/13	12-mth Target Price	Total Return Potential	Annual Dividend	Current Yield	Market Cap ($mn)	Ent. Value ($mn)	EPS 2011A	EPS 2012E	EPS 2013E	EPS 2014E	EPS 2015E	EPS 2016E	EPS 5-year CAGR	P/E 2011A	P/E 2012E	P/E 2013E	P/E 2014E	P/E 2015E	P/E 2016E
AGL Resources	GAS	Neutral	39.79	$39	2.6%	1.84	4.6%	$4,683	$9,125	$2.84	$2.46	$2.60	$3.00	$3.25	$3.40	3.7%	14.0x	16.2x	15.3x	13.3x	12.3x	11.7x
Atmos Energy	ATO	Neutral	37.98	$38	3.7%	1.38	3.6%	3,468	6,006	2.19	2.16	2.50	2.75	3.00	3.25	8.2%	17.3x	17.6x	15.2x	13.8x	12.7x	11.7x
Nisource, Inc.	NI	NC	27.20	--	--	0.96	3.5%	8,440	16,460	1.35	1.45	1.55	1.67	1.76	--	NA	20.1x	18.8x	17.5x	--	--	--
New Jersey Resources	NJR	NC	44.07	--	--	1.52	3.4%	1,838	2,768	2.61	2.71	2.56	2.70	2.55	--	NA	16.9x	16.3x	--	--	--	--
Piedmont Natural Gas Co.	PNY	NC	32.50	--	--	1.20	3.7%	2,348	3,686	1.57	1.62	1.74	1.80	1.96	--	NA	20.7x	20.1x	18.7x	--	--	--
South Jersey Industries	SJI	NC	55.26	--	--	1.61	2.9%	1,718	2,642	2.67	2.88	3.11	3.38	3.60	--	NA	20.7x	19.2x	--	--	--	--
WGL Holdings	WGL	Sell	42.25	$37	-8.6%	1.60	3.8%	2,184	3,131	2.25	2.68	2.40	2.60	2.85	3.00	5.9%	18.8x	15.8x	17.6x	16.2x	14.8x	14.1x
LDCs - Average					*-0.8%*		*3.7%*									*5.9%*	*18.4x*	*17.7x*	*16.9x*	*14.4x*	*13.2x*	*12.5x*

Company	Ticker	Total Return YTD	Total Return Trailing 12-mths	Last Q Debt/ Cap	2013E EBITDA/ Int exp	2013E Debt/ EBITDA	Debt Rating S&P	Debt Rating Moodys	EBITDA 2011A	EBITDA 2012E	EBITDA 2013E	EBITDA 2014E	EBITDA 2015E	EBITDA 2016E	EBITDA 5-year CAGR	EV / EBITDA 2011A	EV / EBITDA 2012E	EV / EBITDA 2013E	EV / EBITDA 2014E	EV / EBITDA 2015E	EV / EBITDA 2016E
AGL Resources	GAS	0.7%	1.6%	57.3%	5.1x	4.6x	BBB+	--	$626	$1,025	$1,138	$1,213	$1,270	$1,309	15.9%	14.6x	8.9x	8.0x	7.5x	7.2x	7.0x
Atmos Energy	ATO	8.1%	21.7%	52.3%	4.4x	4.2x	BBB+	Baa1	669	694	782	884	980	1,060	9.6%	9.0x	8.7x	7.7x	6.8x	6.1x	5.7x
WGL Holdings	WGL	8.8%	4.3%	41.6%	6.2x	3.0x	A+	--	335	362	355	403	437	465	6.8%	9.3x	8.6x	8.8x	7.8x	7.2x	6.7x
LDCs - Average		*5.9%*	*9.2%*	*50.4%*	*5.2x*	*3.9x*									10.8%	*11.0x*	*8.7x*	*8.2x*	*7.4x*	*6.8x*	*6.5x*

Not covered (NC) company estimates are based on Thomson One Analytics' consensus

Source: Company data, Goldman Sachs Research estimates, FactSet, Thomson One Analytics.

Exhibit 12: Energy MLPs valuation overview

Partnership	Ticker	Rating	Close 2/22/2013	12-mth Target Price	Total Return Potential	Annual Distrib	Current Yield	1-yr Distrib Growth Forecast	Market Cap ($mn)	Ent. Value ($mn)	Earnings Per Unit (EPU)							Distributions Per Unit						
											2011A	2012E	2013E	2014E	2015E	2016E	5-year CAGR	2011A	2012E	2013E	2014E	2015E	2016E	5-year CAGR
Diversified MLPs																								
Enbridge Energy Partners	EEP	Neutral	$27.85	$33	26%	$2.17	7.8%	0.0%	$7,298	$13,757	$1.36	$1.09	$1.05	$1.75	$1.90	$1.95	7.6%	$2.11	$2.16	$2.17	$2.24	$2.31	$2.38	2.4%
Enbridge Energy Management	EEQ	Neutral	28.66	$35	30%	2.17	7.6%	0.0%	1,161	13,757	1.36	1.09	1.05	1.75	1.90	1.95	7.6%	2.11	2.16	2.17	2.24	2.31	2.38	2.4%
Enterprise Products Partners	EPD	Buy	55.85	$66	23%	2.64	4.7%	6.9%	50,416	67,137	2.21	2.62	2.85	2.85	3.20	3.50	9.6%	2.44	2.57	2.76	2.95	3.15	3.37	6.7%
Kinder Morgan Energy Partners	KMP	Neutral	86.55	$93	13%	5.16	6.0%	3.9%	21,880	48,120	1.75	2.34	2.40	2.20	2.35	2.10	3.8%	4.61	4.98	5.28	5.49	5.66	5.83	4.8%
Kinder Morgan Management	KMR	Neutral	81.84	$89	15%	5.16	6.3%	3.9%	9,428	48,120	1.75	2.34	2.40	2.20	2.35	2.10	3.8%	4.61	4.98	5.28	5.49	5.66	5.83	4.8%
Diversified MLPs - Avg					*21%*		*6.5%*	*2.9%*									*6.5%*							*4.2%*
Liquids MLPs																								
Buckeye Partners	BPL	Neutral	$53.96	$55	10%	$4.15	7.7%	1.2%	$5,316	$7,706	$2.89	$2.97	$3.55	$4.00	$4.30	$4.50	9.2%	$4.08	$4.15	$4.16	$4.37	$4.70	$5.05	4.4%
Delek Logistics Partners	DKL	Buy	27.66	$28	7%	1.50	5.4%	10.7%	664	717	--	0.74	1.50	1.60	1.90	2.00	NA	--	1.50	1.60	1.70	1.80	1.91	NA
Holly Energy Partners	HEP	Sell	38.81	$35	-5%	1.88	4.8%	4.3%	2,204	3,076	1.30	1.38	1.50	1.55	1.65	1.70	5.6%	1.74	1.84	1.93	2.02	2.11	2.20	4.8%
Magellan Midstream Partners	MMP	Buy	49.37	$56	17%	2.00	4.1%	11.0%	11,226	13,416	1.90	2.05	2.30	2.55	2.85	3.00	9.5%	1.59	1.88	2.14	2.41	2.68	2.97	13.4%
NuStar Energy, LP	NS	Neutral	50.34	$50	8%	4.38	8.7%	0.0%	3,921	5,931	2.92	0.65	1.65	3.00	3.50	3.60	4.3%	4.36	4.38	4.38	4.38	4.42	4.49	0.6%
NuStar GP Holdings	NSH	Neutral	29.52	$32	16%	2.18	7.4%	0.0%	1,257	1,253	1.64	0.05	1.48	1.88	2.06	2.12	5.3%	1.98	2.11	2.18	2.26	2.34	2.41	4.0%
Plains All American Pipeline	PAA**	Buy	53.99	$60	15%	2.25	4.2%	8.9%	18,195	23,865	2.63	3.37	3.10	2.75	2.55	2.45	-1.4%	1.99	2.16	2.38	2.57	2.70	2.84	7.4%
Sunoco Logistics Partners	SXL	Buy	61.54	$69	15%	2.07	3.4%	20.9%	6,394	8,019	3.01	4.12	2.85	2.85	3.05	2.85	-1.1%	1.64	1.96	2.47	2.69	2.90	3.10	13.7%
Liquids MLPs - Avg					*10%*		*5.7%*	*7.1%*									*4.5%*							*6.9%*
Natural Gas MLPs																								
Access Midstream Partners LP	ACMP	NR	$36.67	--	--	$1.80	4.9%	13.8%	$5,440	$6,674	$1.37	$1.30	$1.50	$1.60	$1.65	$1.75	5.1%	$1.48	$1.71	$1.95	$2.15	$2.31	$2.42	10.4%
Boardwalk Pipeline Partners	BWP	NC	26.16	NA	NA	2.13	8.1%	NA	6,032	9,567	1.41	1.43	1.38	1.49	1.65	--	NA	2.11	2.13	2.14	2.16	2.24	2.32	NA
El Paso Pipeline Partners	EPB	Buy	41.94	$47	18%	2.44	5.8%	6.6%	9,059	13,191	2.03	2.23	2.15	2.35	2.30	2.35	2.9%	1.93	2.25	2.54	2.72	2.85	2.91	8.6%
Energy Transfer Equity[1]	ETE	NC	51.74	NA	NA	2.54	4.9%	NA	14,485	NA	1.38	1.13	2.36	2.99	3.29	--	NA	2.44	2.51	2.75	3.07	3.66	4.18	NA
Energy Transfer Partners	ETP	Neutral	47.19	$46	5%	3.58	7.6%	1.7%	11,623	20,553	1.58	1.19	2.10	2.85	3.15	3.20	15.2%	3.58	3.58	3.62	3.71	3.90	4.09	2.7%
Niska Gas Storage Partners[2]	NKA	Sell	11.82	$11	5%	1.40	11.8%	0.0%	807	1,541	0.56	0.52	0.30	0.60	0.85	--	NA	1.40	1.40	1.40	1.40	1.40	--	NA
ONEOK Partners	OKS	Neutral	58.43	$63	13%	2.84	4.9%	8.0%	12,844	16,693	3.35	3.10	2.40	2.75	3.05	3.05	-1.8%	2.37	2.69	2.94	3.09	3.24	3.34	7.1%
PAA Natural Gas Storage	PNG	NC	20.96	NA	NA	1.43	6.8%	NA	1,195	NA	1.04	1.04	0.93	0.97	1.01	--	NA	1.41	1.43	1.45	1.47	1.55	1.50	NA
Spectra Energy Partners	SEP	Neutral	36.39	$34	-1%	1.98	5.4%	5.1%	3,504	4,044	1.65	1.60	1.50	1.55	1.55	1.60	-0.6%	1.87	1.95	2.05	2.13	2.22	2.31	4.3%
Summit Midstream Partners	SMLP	Neutral	21.67	$23	14%	1.60	7.4%	12.5%	1,080	1,419	--	0.73	0.85	0.90	0.95	0.95	6.9%	--	0.43	1.73	1.85	1.97	2.09	6.5%
TC Pipelines, LP	TCP	Sell	45.43	$44	4%	3.12	6.9%	1.3%	2,431	3,115	3.03	2.57	2.50	2.55	2.60	2.70	-2.3%	3.06	3.11	3.15	3.31	3.47	3.65	3.6%
USAC Compression Partners	USAC	Buy	18.34	$20	18%	1.70	9.3%	0.0%	534	867	--	--	0.58	0.73	0.73	0.74	8.2%	--	--	1.70	1.80	1.89	1.95	4.6%
Williams Partners	WPZ	Buy	51.34	$66	35%	3.31	6.4%	7.3%	19,596	27,290	3.72	1.98	2.85	3.25	3.40	3.55	-1.0%	2.96	3.21	3.46	3.72	3.94	4.14	6.9%
Nat Gas MLPs - Avg (ex-NKA)					*13%*		*6.5%*	*5.3%*									*3.4%*							5.5%
Propane MLPs																								
AmeriGas Partners	APU	NC	$43.04	NA	NA	$3.20	7.4%	NA	$3,995	$6,255	$2.73	$0.22	$2.44	$2.82	$2.82	--	NA	$2.93	$3.16	$3.29	$3.40	$3.53	--	NA
Ferrellgas Partners	FGP	NC	20.03	NA	NA	2.00	10.0%	NA	1,583	2,805	(0.51)	(0.17)	0.59	0.61	0.64	--	NA	2.00	2.00	2.00	2.00	2.00	--	NA
Inergy, LP	NRGY	NC	19.62	NA	NA	1.16	5.9%	NA	2,465	3,207	0.40	0.11	0.33	0.54	0.62	--	NA	2.82	1.75	1.19	1.31	1.47	--	NA
Suburban Propane Partners	SPH	Neutral	42.13	$46	17%	3.50	8.3%	2.3%	2,416	3,687	3.24	0.62	2.20	3.50	3.80	3.80	3.2%	3.41	3.41	3.50	3.70	3.92	4.12	3.8%
Propane MLPs - Average					*17%*		*7.9%*	*2.3%*									--							*3.8%*
E&P MLPs/Royalty Trusts																								
Linn Energy	LINE	Neutral	$38.49	$47	30%	$2.90	7.5%	5.0%	7,609	15,815	$1.81	$1.54	$2.55	$2.60	$2.65	$2.75	8.7%	$2.73	$2.90	$3.05	$3.20	$3.29	$3.39	4.4%
LinnCo	LNCO	Neutral	39.27	$44	19%	2.84	7.2%	2.0%	1,366	15,815	--	$0.67	$2.90	$2.98	$3.07	$3.16	3.0%	--	0.67	2.90	2.98	3.07	3.16	3.0%
Chesapeake Granite Wash Trust	CHKR	Neutral	17.71	$19	22%	2.52	14.2%	--	828	827	1.14	2.82	3.13	3.25	2.76	1.82	NA	1.16	2.85	3.13	3.25	2.76	1.83	NA
Enduro Royalty Trust	NDRO	Buy	16.45	$21	38%	1.74	10.6%	3.9%	543	543	0.83	1.74	1.78	1.74	1.77	1.47	NA	1.26	1.74	1.78	1.74	1.77	1.47	NA
E&P MLPs - Average					*27%*		*9.9%*	*3.6%*									*5.8%*							*3.7%*
Other MLPs																								
CVR Partners[3]	UAN	Neutral	$25.15	$29	22%	$1.80	7.2%	--	$1,841	$1,785	$1.77	$1.55	$1.85	$1.65	$1.95	$1.80	0.4%	$1.57	$1.85	$2.05	$1.75	$2.15	$1.95	4.5%
Averages																								
Energy MLPs	--	--	--	--	**14.3%**	--	**6.3%**	**5.3%**																
Energy MLPs (ex-GP MLPs)	--	--	--	--	**14.2%**	--	**6.3%**	**5.6%**																

EV = Equity Market Cap + Net Debt + Minority Interest + Preferred + [Other]
NR - Not rated; NC - Not covered; CS - Coverage Suspended; NC/CS estimates are based on Thomson One Analytics' consensus
** - denotes Conviction List stock
1 - ETE figures are driven by our estimates for ETP, respectively, and company data.
2 - NKA reports 3/31 fiscal year end
3 - UAN distribution a discount of GS 2012-14 forecasts, using 5% discount rate

Source: Company data, Goldman Sachs Research estimates, FactSet, Thomson One Analytics.

Exhibit 13: Energy MLPs valuation overview

Partnership	Ticker	Total Return YTD	Total Return Trailing 12-mths	Last Q Debt/Cap	2013E EBITDA/Int exp	2013E Debt/EBITDA	Debt Rating S&P	Debt Rating Moodys	Distributable Cash Flow (DCF) Per Unit 2011A	2012E	2013E	2014E	2015E	2016E	5-year CAGR	DCF Per Unit / Distribution (coverage ratio) 2011A	2012E	2013E	2014E	2015E	2016E	Return on Equity (ROE) to the Limited Partner 2011A	2012E	2013E	2014E
Diversified MLPs																									
Enbridge Energy Partners	EEP	2%	-8%	52%	3.2	5.1	BBB	Baa2	$2.27	$1.86	$1.80	$2.45	$2.60	$2.65	3.1%	1.08	0.86	0.83	1.09	1.13	1.11	9.5%	7.2%	7.0%	10.9%
Enbridge Energy Management	EEQ	1%	-7%	52%	3.2	5.1	BBB	Baa2	2.27	1.86	1.80	2.45	2.60	2.65	3.1%	1.08	0.86	0.83	1.09	1.13	1.11	9.5%	7.2%	7.0%	10.9%
Enterprise Products Partners	EPD	13%	14%	56%	5.1	3.9	BBB-	NR	3.17	3.50	3.75	3.85	4.25	4.55	7.5%	1.30	1.36	1.36	1.31	1.35	1.35	15.9%	18.1%	18.5%	17.5%
Kinder Morgan Energy Partners	KMP	10%	2%	60%	6.5	4.1	BBB	Baa2	4.10	4.64	5.50	5.40	5.45	5.05	4.3%	0.89	0.93	1.04	0.98	0.96	0.87	7.9%	10.6%	11.0%	11.3%
Kinder Morgan Management	KMR	10%	8%	60%	6.5	4.1	BBB	Baa2	4.10	4.64	5.50	5.40	5.45	5.05	4.3%	0.89	0.93	1.04	0.98	0.96	0.87	7.9%	10.6%	11.0%	11.3%
Diversified MLPs - Average		*7%*	*2%*	*56%*	*4.9*	*4.4*									*4.5%*	*1.05*	*0.99*	*1.02*	*1.09*	*1.11*	*1.06*	*10.1%*	*10.7%*	*10.9%*	*12.4%*
Liquids MLPs																									
Buckeye Partners	BPL	21%	-4%	51%	4.6	4.2	BBB	Baa3	$3.58	$3.91	$4.60	$5.20	$5.60	$5.85	10.3%	0.88	0.94	1.11	1.19	1.19	1.16	15.2%	12.7%	14.0%	14.7%
Delek Logistics Partners	DKL	--	--	31%	18.3	1.1	--	--	--	1.24	1.75	1.80	2.10	2.20	NA	--	0.82	1.09	1.06	1.17	1.15	--	15.1%	27.0%	26.6%
Holly Energy Partners	HEP	19%	35%	46%	3.7	3.8	BB	Ba3	1.77	2.33	2.35	2.40	2.50	2.55	7.6%	1.02	1.27	1.22	1.19	1.19	1.16	8.7%	8.6%	9.5%	10.4%
Magellan Midstream Partners	MMP	15%	42%	61%	5.5	3.4	BBB	Baa2	2.08	2.30	2.60	2.95	3.30	3.45	10.7%	1.31	1.23	1.21	1.23	1.23	1.16	28.8%	30.5%	31.3%	30.4%
NuStar Energy, LP	NS	21%	-9%	40%	4.2	5.4	BBB-	Baa3	4.78	2.95	3.50	4.70	5.20	5.30	2.1%	1.10	0.67	0.80	1.07	1.17	1.18	7.0%	1.8%	5.2%	10.1%
Plains All American Pipeline	PAA**	21%	38%	40%	6.5	2.9	BBB-	Baa2	2.94	4.21	3.55	3.30	3.10	3.00	0.4%	1.48	1.95	1.49	1.28	1.15	1.06	16.6%	18.7%	15.5%	13.2%
Sunoco Logistics Partners	SXL	25%	56%	54%	8.3	2.6	BBB	NR	3.43	4.96	4.25	4.30	4.55	4.45	5.3%	2.10	2.53	1.73	1.60	1.57	1.43	30.9%	36.7%	22.3%	21.6%
Liquids MLPs - Average		*20%*	*26%*	*46%*	*7.3*	*3.4*									*6.1%*	*1.31*	*1.34*	*1.23*	*1.23*	*1.24*	*1.19*	*17.9%*	*17.7%*	*17.8%*	*18.1%*
Natural Gas MLPs																									
Access Midstream Partners LP	ACMP	11%	35%	34%	6.9	3.1	NR	NR	$1.81	$1.92	$2.40	$2.55	$2.60	$2.70	8.4%	1.22	1.12	1.23	1.19	1.13	1.12	8.2%	8.1%	9.1%	8.7%
El Paso Pipeline Partners	EPB	15%	17%	68%	4.0	3.9	BB	NR	1.92	2.69	2.65	2.95	2.85	2.85	8.2%	1.00	1.19	1.04	1.09	1.00	0.98	11.5%	11.3%	10.8%	11.8%
Energy Transfer Partners	ETP	12%	7%	57%	5.8	3.2	BBB-	Baa3	3.01	3.28	4.80	5.55	5.85	5.95	14.6%	0.84	0.92	1.33	1.50	1.50	1.45	6.5%	3.6%	6.3%	8.8%
Niska Gas Storage Partners[1]	NKA	12%	41%	55%	2.1	4.2	BB-	B1	1.14	1.29	1.11	1.46	1.71	--	NA	0.82	0.92	0.80	1.05	1.22	--	2.3%	-23.5%	-6.5%	3.5%
ONEOK Partners	OKS	10%	1%	51%	4.8	4.3	BBB	Baa2	3.90	3.69	3.15	3.70	4.05	4.05	0.7%	1.65	1.37	1.07	1.20	1.25	1.21	20.8%	17.3%	11.7%	12.8%
Spectra Energy Partners	SEP	18%	16%	24%	6.8	2.9	BBB	Baa3	2.07	2.02	2.10	2.20	2.20	2.25	1.6%	1.11	1.04	1.02	1.03	0.99	0.97	9.9%	9.0%	8.7%	9.0%
Summit Midstream Partners	SMLP	--	--	34%	13.1	1.6	BBB	NR	--	1.74	1.95	2.05	2.20	2.25	6.6%	--	--	1.13	1.11	1.12	1.08	--	5.5%	4.8%	5.4%
TC Pipelines, LP	TCP	14%	3%	35%	5.7	3.8	NR	NR	4.43	3.73	3.95	4.00	4.05	4.15	-1.3%	1.45	1.20	1.25	1.21	1.17	1.14	12.8%	10.6%	10.6%	10.7%
USAC Compression Partners	USAC	--	--	43%	6.4	4.7	--	--	--	--	1.82	2.02	2.07	2.12	5.3%	--	--	1.07	1.12	1.10	1.09	0.0%	1.3%	4.0%	4.5%
Williams Partners	WPZ	7%	-11%	37%	5.4	3.9	BBB-	Baa2	4.49	2.98	3.40	4.15	4.20	4.30	-0.8%	1.52	0.93	0.98	1.12	1.07	--	10.0%	6.3%	8.3%	10.9%
Natural Gas MLPs - Average		*12%*	*13%*	*45%*	*5.3*	*3.8*									*4.6%*	*1.20*	*1.09*	*1.09*	*1.17*	*1.16*	*1.14*	*9.1%*	*4.9%*	*7.0%*	*9.0%*
E&P MLPs/Royalty Trusts																									
Linn Energy	LINE	11%	10%	66%	4.9	3.4	B+	B1	3.10	3.69	4.10	3.90	3.70	3.10	0.0%	1.14	1.27	1.35	1.22	1.12	0.91	10.1%	8.5%	12.7%	12.7%
LinnCo	LNCO	--	--	0%	--	--	--	--	--	0.67	2.90	2.98	3.07	3.16	3.0%	--	1.00	1.00	1.00	1.00	1.00	--	--	8.4%	8.7%
Chesapeake Granite Wash Trust	CHKR	11%	--	0%	--	--	NR	NR	1.14	2.82	3.13	3.25	2.76	1.82	9.8%	0.98	0.99	1.00	1.00	1.00	1.00	--	--	--	--
Enduro Royalty Trust	NDRO	-1%	--	0%	--	--	NR	NR	0.83	1.74	1.78	1.74	1.77	1.47	12.2%	0.66	1.00	1.00	1.00	1.00	1.00	--	--	--	--
Other MLPs																									
Suburban Propane Partners	SPH	11%	3%	60%	3.4	3.9	BB-	Ba2	$3.96	$1.56	$3.90	$5.15	$5.45	$5.45	6.6%	1.16	0.46	1.11	1.39	1.39	1.32	6.5%	1.3%	5.9%	7.7%
CVR Partners	UAN	0%	--	21%	34.9	0.8	NR	NR	1.94	1.72	2.05	1.75	2.15	1.95	0.1%	1.24	0.93	1.00	1.00	1.00	1.00	--	--	--	--
Energy MLPs - Average	--	13%	14%	*48%*	*5.8*	3.8	--	--	--	--	--	--	--	--	5.1%	1.19	1.12	1.12	1.18	1.18	1.15	*11.7%*	*10.1%*	*11.3%*	*12.6%*
Alerian MLP Index	AMZ	11%	5%	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
S&P 500	SPX	6%	11%	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Partnership	Ticker	Total Return YTD	Total Return Trailing 12-mths	LP units owned (mn)	GP split level	Yield Spread to MLP	Percent of DCF from GP ownership 2011A	2012E	Distributable Cash Flow (DCF) Per Unit 2011A	2012E	2013E	2014E	2015E	2016E	5-year CAGR	Enterprise Value / Distributable Cash Flow 2012E	2013E	2014E	2015E	2016E
NuStar GP Holdings	NSH	9%	-10%	10.2	25%	132	49%	52%	1.97	2.13	2.16	2.26	2.28	2.33	3.5%	13.8	13.6	13.0	12.9	12.6

EV = Equity Market Cap + Net Debt + Minority Interest + Preferred + [Other]
NR - Not rated; NC - Not covered; CS - Coverage Suspended; NC/CS estimates are based on Thomson One Analytics' consensus
** - denotes Conviction List stock
1 - NKA reports 3/31 fiscal year end

Source: Company data, Goldman Sachs Research estimates, FactSet, Thomson One Analytics.

Upcoming events

Exhibit 14: Upcoming events

Monday	Tuesday	Wednesday	Thursday	Friday
25-Feb	26-Feb	27-Feb	28-Feb	1-Mar
	USAC: 4Q2012 10:00 am ET 866-314-4865, id: 56463737 **OKE / OKS: 4Q2012 11:00 am ET** 888-427-9421, id: 2364894		**UAN: 4Q2012 11:00 am ET** 877-407-8029, id: NA	
4-Mar	5-Mar	6-Mar	7-Mar	8-Mar
		EEP Investor Day New York City, NY		
11-Mar	12-Mar	13-Mar	14-Mar	15-Mar
			SMLP: 4Q2012 11:30 am ET 847-413-3362, id: 34267638	
18-Mar	19-Mar	20-Mar	21-Mar	22-Mar

Source: Company data.

Company-specific risks

Exhibit 15: Company-specific risks

Ticker	Company Name	Rating	Target Price	Target Price Methodology	Risks
Diversified Pipelines					
ENB.TO	Enbridge Inc.	Buy	C$ 50	EV/EBITDA	Lower oil production and pipeline volumes, increased competition, cost overruns or delays.
KMI	Kinder Morgan Inc.	Buy	$41	SoP	Lower commodity prices and volume, cost overruns or delays
OKE	ONEOK Inc.	Neutral	$53	SoP/NAV	Lower/higher economic growth, lower/higher volumes/pricing for natural gas/NGLs.
SE	Spectra Energy	Neutral	$29	EV/EBITDA	Lower/higher commodity prices & volumes; project cost overruns or delays.
TRP.TO	TransCanada Corp.	Neutral	C$ 48	EV/EBITDA	Higher power prices/volumes, positive regulatory outcomes. Further delays to Keystone XL permit, project cost overruns.
WMB**	The Williams Companies	Buy	$45	EV/EBITDA	Lower commodity prices, lower margins, lower volumes, higher costs
Master Limited Partnerships (MLPs)					
ACMP	Access Midstream Partners LP	Not Rated	NA	NA	
BPL	Buckeye Partners	Neutral	$55	Yield-based	Refined product throughput trends, on-time and on-budget project implementation and project announcements, market rate program resolution
CHKR	Chesapeake Granite Wash Trust	Neutral	$19	Yield-based	Higher/lower commodity prices, better/worse than anticipated well results, rising/falling interest rates
DKL	Delek Logitstics Partners	Buy	$28	Yield-based	Underperformance at parent refineries, limited geographic diversity, dependence on parent for near-term growth
EEP	Enbridge Energy Partners	Neutral	$33	Yield-based	Higher/lower commodity prices, better/worse than anticipated well results and asset/operator concentration risk
EEQ	Enbridge Energy Management	Neutral	$35	Yield-based	Higher/lower than expected distribution growth, faster/slower-than-expected recovery in energy prices
EPB	El Paso Pipeline Partners	Buy	$47	Yield-based	Lower than expected distribution growth, slower-than-expected recovery in energy prices
EPD	Enterprise Product Partners	Buy	$66	Yield-based	Weaker infrastructure growth, energy prices, capital market volatility, rising interest rates
ETP	Energy Transfer Partners	Neutral	$46	Yield-based	Lower/higher gas prices/differentials, higher/lower rate of dropdowns, more/less accretive acquisitions
HEP	Holly Energy Partners	Sell	$35	Yield-based	Accelerated organic project pipeline growth, parent dropdown announcements and increased throughput
KMP	Kinder Morgan Partners	Neutral	$93	Yield-based	Higher/lower commodity prices, volume declines, cost overruns, project delays or changes to MLP taxes
KMR	Kinder Morgan Management	Neutral	$89	Yield-based	Higher/lower commodity prices, volume declines, cost overruns, project delays
LINE	Linn Energy	Neutral	$47	Yield-based	Better/worse-than expected well results, more/less accretive acquisitions, higher/lower NGL prices
LNCO	LinnCo	Neutral	$44	Yield-based	Better/worse-than expected performance at LINE, lower/higher institutional demand for MLPs
MMP	Magellan Midstream Partners	Buy	$56	Yield-based	Weaker infrastructure growth, energy prices, capital market volatility, rising interest rates
NDRO	Enduro Royalty Trust	Buy	$21	Yield-based	Sustained lower oil and natural gas prices, reduced third-party drilling
NKA	Niska Gas Storage	Sell	$11	Yield-based	Exposure to summer-winter natural gas price differentials, and a potential underbuild of natural gas storage.
NS	NuStar Energy L.P.	Neutral	$50	Yield-based	Higher/lower government highway spending, higher/lower transport volumes, weaker/stronger asphalt pricing, increased/decreased competition, higher/lower storage rates
NSH	NuStar GP Holdings	Neutral	$32	EV/Distributable cash flow	Weaker/stronger infrastructure growth, energy prices, capital market volatility, rising/falling interest rates
OKS	ONEOK Partners	Neutral	$63	Yield-based	Wider/narrower than expected Conway-Mt. Belvieu NGL price spreads, cost overruns or delays on its Bakken Crude Express pipeline project, increased production in the Bakken driving up the need for takeaway capacity.
PAA**	Plains All American	Buy	$60	Yield-based	Less accretive acquisition/new-build project, narrower-than-expected contango crude oil spreads, rising interest rates.
SEP	Spectra Energy Partners	Neutral	$34	Yield-based	Weaker/stronger infrastructure growth, energy prices, capital market volatility, rising/falling interest rates
SPH	Suburban Propane Partners	Neutral	$46	Yield-based	Warmer weather, margin volatility, conservation trends, competition from other propane retailers and alternative energy sources
SXL	Sunoco Logistics Partners	Buy	$69	Yield-based	Reduced domestic oil supply growth, lower oil price and spread volatility or less accretive asset acquisitions or organic growth projects than forecasted.
SMLP	Summit Midstream Partners	Neutral	$23	Yield-based	Increase/decrease in natural gas production in the Piceance and/or Barnett, asset drop-down from sponsor
TCP	TC Pipelines	Sell	$44	Yield-based	More accretive rate of asset acquisitions, more sustained level of Great Lakes volumes than currently expected, higher level of recontracted margins than expected
UAN	CVR Partners	Neutral	$29	Yield-based	Significant sensitivity to UAN-Ammonia prices and spreads, lack of product, feedstock, facility diversification, project cost overrun
USAC	USA Compression Partners	Buy	$20	Yield-based	Cash flow volatility due to short-term contracts, cyclical nature of margins and erosion of pricing power due to low barriers for entry into the compression services industry
WPZ	Williams Partners	Buy	$66	Yield-based	Lower NGL prices, higher natural gas prices, lower volumes, project execution, unfavorable government rulings.
Local Distribution Companies (LDCs)					
GAS	AGL Resources	Neutral	$39	DDM, P/E	Higher utility rate case revenues, higher wholesale marketing margins, and accretive acquisitions; downside risks include less favorable rate case decisions, decreased natural gas time and location spreads, and dilutive acquisitions.
ATO	Atmos Energy	Neutral	$38	DDM, P/E	Higher utility rate case revenues, higher pipeline and marketing margins, and accretive acquisitions; downside risks include less favorable rate case decisions, decreased natural gas time and location spreads, and dilutive acquisitions.
WGL	WGL Holdings	Sell	$37	DDM, P/E	Higher rate case revenues, higher Retail segment margins, an accretive Commonwealth project, and higher natural gas time and location volatility.

** - denotes Conviction List Stock
1 - 12-month price target

Source: *Goldman Sachs Research estimates.*

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Reg AC

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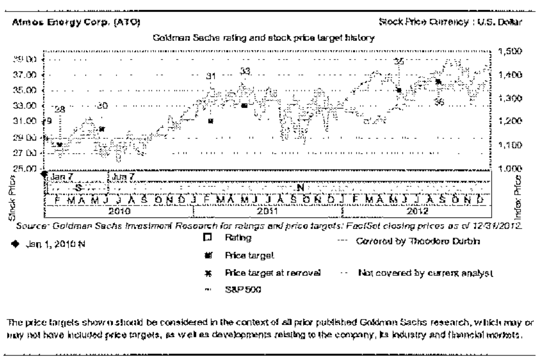
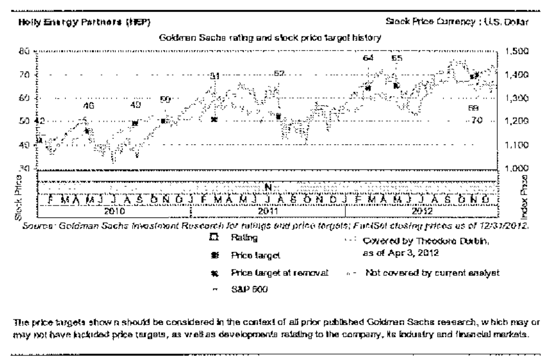
Price target and rating history chart(s)





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COMPANY UPDATE / TARGET CHANGE
ESTIMATE CHANGE

Key Metrics

ATO - NYSE - as of	2/6/13	$37.58
Price Target		$43.00
52-Week Range	$30.39 -	$37.94
Shares Outstanding (mm)		90.2
Market Cap. ($mm)		$3,391.2
1-Mo. Average Daily Volume		476,049
Institutional Ownership		60.4%
LT Debt/Total Capital	Q1'13	44.7%
ROE	FY'12	9.4%
Book Value / Share	Q1'13	$26.55
Price / Book Value		1.4x
Dividend Yield		3.7%
LTM EBITDA Margin		21.0%

EPS FY 9/30 **(ex-mark to market adj & one-time items)**

	2012A	Prior 2013E	Current 2013E	Prior 2014E	Current 2014E
1Q	$0.61	--	$0.74 A	--	--
2Q	$1.28	$1.32	$1.35	--	--
3Q	$0.32	$0.13	$0.28	--	--
4Q	*$0.12	$0.08	$0.12	--	--
Year	$2.31	$2.43	$2.49	--	$2.57
P/E	16.3x		15.1x	--	14.6x

Exclusive of one-time items

Revenue ($MM)

	2012A	Prior 2013E	Current 2013E	Prior 2014E	Current 2014E
1Q	$1,101	$1,169	--	--	
2Q	$1,246	$1,282	$1,267	--	
3Q	$586	$581	$588	--	
4Q	$508	$725	$574	--	
Year	$3,438	$3,757	$3,599	--	$3,759

Company Description: *Headquartered in Dallas, Texas, Atmos is one of the largest natural gas-only distributors in the US with customers in 9 states. ATO has non-utility operations in 22 states. It also provides natural gas marketing and procurement services and manages company owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Atmos Energy Corp.

ATO — NYSE — Long-term Buy-2

Fiscal Q1'13 Results for ATO; Raising Price Target by $4 to $43.

Investment Highlights

- Atmos Energy Corp. reported fiscal Q1'13 (ending 12/31/12) adjusted EPS of $0.74 vs. $0.61 in the year ago period. Adjusted EPS from continuing operations were $0.71 versus $0.55 in Q1'12.
- Consensus called for earnings of $0.77/share, which is likely most-closely comparable to the adjusted figure of $0.74/share; however, the company guided toward the upper end of its fiscal '13 EPS guidance range of $2.40-$2.50.
- Gross profit (gross margin) from continuing operations grew 2.0% yr/yr in Q1, but the most material drivers in the quarter were O&M and interest expense, which declined 7.1% and 14.6%, respectively, in the quarter on a yr/yr basis.
- Cap Ex in Q1'13 grew ~23% yr/yr, with the bulk of upside continuing to be dedicated toward regulated growth projects.
- We are raising our full year adjusted EPS figure (comparable to company guidance) by $0.06 to $2.49; our fiscal '13 continuing ops EPS estimate rises by $0.11 to $2.40. We are inaugurating a 2014 adjusted EPS estimate of $2.57.
- We are maintaining our Long-term Buy rating on ATO but are extending our 2-year price target by $4 to $43. Our target is derived by applying a 17x multiple to our 2014 continuing operations EPS estimate. We believe this is appropriate given ATO's growth strategy, the valuations of its most comparable peers, and a continuing low interest rate environment. **(see additional discussion)**

Note Important Disclosures on Pages 5-6
Note Analyst Certifications on Page 5

Additional Discussion—Multiple Items

Results for the quarter were technically below expectations on an EPS basis, though we believe a rate case settlement in the Mid-Texas division that will shift margin into the summer quarters was not fully anticipated. We commend the company for keeping expenses in check as referenced in our opening points, and believe the positive trend can stay generally intact.

We have expanded our target P/E multiple on Atmos from 16x to 17x, which we believe is consistent with ATO's most closely comparable peer companies. While ATO has typically traded below this target (averaging ~14.0x over the last 5 years), we believe discontinued operations/divestitures have weighed on realized valuations in recent years, as have a less than ideal footprint and a lack of efficiency. Additionally, we view the company as worthy of a higher multiple based on its targets of 6.5-8.5% regulated rate base growth and 6-8% EPS growth, which management reiterated on the call and we believe are achievable.

Additional Discussion—Final Thoughts

ATO continues to be sparsely recommended among Street analysts. We believe the stock can continue to move higher based on fundamentals and forward prospects, but believe a potential shift in sentiment among analysts/investors represents another potential catalyst.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation by customers in order to reduce consumption.

Gas utilities face competition from alternative fuels. In the industrial market, many customers have the capability of using both natural gas as well as another source of energy. Increases in the price of natural gas can negatively impact a competitive position by decreasing the price benefits of natural gas to the end user. The cost of natural gas from non-domestic sources may play a greater role in establishing the market price of natural gas in the future.

Gas utilities are subject to regulation at the federal and state levels. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities. Additionally, we anticipate a high level of capital expenditure over the coming years; inability to access the capital markets may negatively impact the company's growth prospects.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Atmos Energy Corp. FYE Sept

Income Statement ('000s)	**FY'10**	**FY'11**	Q1'12	Q2'12	Q3'12	Q4'12	**FY'12**	Q1'13p	Q2'13E	Q3'13E	Q4'13E	**FY'13E**	**FY'14E**
Operating Revenues													
Natural Gas Distribution	**2,783,863**	**2,470,664**	693,292	889,008	325,051	237,979	**2,145,330**		917,830	352,140	314,740	**1,584,710**	**2,393,360**
Reg Transmission & Storage	**203,013**	**219.373**	56,759	58,037	67,073	65,482	**247.351**		60,040	67,070	65,480	**192,590**	**253,290**
NonReg	**2,146,658**	**2,024,893**	444.176	370.763	256,250	280,114	**1,351,303**		389,300	269,060	294,120	**952,480**	**1,502,430**
Intersegment Eliminations	**(472,474)**	**(428,495)**	(93,054)	(74,358)	(62,543)	(75,546)	**(305,501)**		(100,000)	(100,000)	(100,000)	**(300,000)**	**(390,000)**
Total Operating Revenues	**4,661,060**	**4,286,435**	1,101,173	1,243,450	585,831	508,029	**3,438,483**		1,267,170	588,270	574,340	**2,429,780**	**3,759,080**
Purchased Gas Cost													
Natural Gas Distribution	**1,785,221**	**1,452,721**	402,207	508,206	124,373	87,801	**1,122,587**		532,340	133,810	129,040	**795,190**	**1,282,610**
NonReg	**2,032,567**	**1,959.893**	428,771	374,992	224,829	267,587	**1,296,179**		393,740	236,070	280,970	**910,780**	**1,418.320**
Intersegment Eliminations	**(470,864)**	**(426.999)**	(92,687)	(74,009)	(62,161)	(75.165)	**(304,022)**		(99,000)	(99,000)	(99,000)	**(297,000)**	**(389,000)**
Total Purchased Gas Cost	**3,346,924**	**2,985,615**	738,291	809,189	287,041	280,223	**2,114,744**		827,080	270,880	311,010	**1,408,970**	**2,311,930**
Gross Profit	**1,314,136**	**1,300,820**	355,392	434,261	298,790	249,389	**1,323,739**	362,362	440,090	317,390	263,330	**1,383,172**	**1,447,150**
Operating Expenses													
Operations & Maintenance Exp	**454,621**	**442,965**	114,644	110,708	107,295	123,624	**453,613**	106,527	110,020	126,960	119,820	**463,330**	**474,910**
D & A	**208,539**	**223,832**	58,366	60,272	59,819	60,783	**237,525**	59,579	59,830	61,090	61,050	**241,550**	**254,960**
Taxes, other than Income	**187,143**	**177,767**	42,911	54,919	46,887	36,903	**181.073**	41,334	56,330	63,480	36,870	**198,010**	**206,780**
Impairments	**-**	**30,270**	-	-	-	5,288	**5,288**	-	-	-	-	-	-
Total Op Exp	**850,303**	**874,834**	215,921	225,899	214,001	226,598	**877,499**	207,440	226,180	251,530	217,740	**902,890**	**936,650**
Operating Income	**463,833**	**425,986**	139,471	208,362	84,789	22,791	**446,240**	154,922	213,910	65,860	45,590	**480,282**	**510,500**
Miscellaneous Income (Expense)	**(591)**	**21,184**	(2,016)	616	(1,948)	(11,059)	**(14,644)**	698	-	-	-	**700**	**-**
Interest	**154,188**	**150,763**	35,726	36,660	34,923	33,896	**141,174**	30,522	34,020	33,520	33,620	**131,680**	**135,480**
Pre-Tax Income	**309,054**	**296,407**	101,729	172,318	47,918	(22,164)	**290,422**	125,098	179,890	32,340	11,970	**349,302**	**375,020**
Income Tax	**119,203**	**106,819**	39,345	66,408	17,774	(21,878)	**98,226**	47,750	62,960	12,610	5,870	**129,190**	**139,180**
Net Income--Cont'd Ops	**189,851**	**189,588**	62,384	105,910	30,144	(286)	**192,196**	77,348	116,930	19,730	6,100	**220,112**	**235,840**
Net Income--Disc Ops	**15,988**	**18,013**	6,123	3,201	988	8,253	**24,521**	3,117	1,500	1,500	1,500	**7,617**	**-**
Net income	**$205,839**	**$207,601**	68,507	109,111	31,132	7,967	**$216,717**	80,465	118,430	21,230	7,600	**$227,729**	**$235,840**
Average Shares Outstanding (FD)	**92,422**	**90,652**	90,546	90,322	90,993	91,224	**91,172**	91,309	91,409	91,459	91,509		
Net Income per Share	**$2.20**	**$2.27**	$0.75	$1.21	$0.34	$0.09	**$2.37**	$0.88	$1.30	$0.23	$0.08	**$2.49**	**$2.57**
MTM gains (losses)	**($0.05)**	**($0.07)**	$0.14	($0.07)	$0.02	($0.14)	**($0.05)**	$0.14	($0.05)	($0.05)	($0.04)	**$0.00**	**$0.00**
One-time benefits (charges)	**$0.05**	**$0.03**	$0.00	$0.00	$0.00	$0.11	**$0.11**	$0.00	$0.00	$0.00	$0.00	**$0.00**	**$0.00**
Adjusted EPS [Cont'd Ops]	**$2.03**	**$2.11**	$0.55	$1.24	$0.31	$0.03	**$2.04**	$0.71	$1.33	$0.27	$0.11	**$2.41**	**$2.57**
Adjusted EPS	**$2.20**	**$2.31**	$0.61	$1.28	$0.32	$0.12	**$2.31**	$0.74	$1.35	$0.28	$0.12	**$2.49**	**$2.57**
Dividends per share	**$1.340**	**$1.360**	$0.345	$0.345	$0.345	$0.345	**$1.380**	$0.350	*$0.350*	*$0.350*	*$0.350*	***$1.400***	***$1.420***
Rate of Change Analysis:							**EPS Ex-MTM Guidance. $2.30-$2.40**	*Guided toward high end of guidance range				**EPS Ex-MTM & Gain on GA sale Guidance. $2.40-$2.50**	
Gross Margin	**-0.4%**	**-1.0%**	-2.6%	-4.3%	12.0%	15.7%	**1.8%**	2.0%	1.3%	6.2%	5.6%	**4.5%**	**4.6%**
O&M Expense	**-1.6%**	**7.3%**	0.1%	-3.0%	-4.8%	21.6%	**6.1%**	-7.1%	-0.6%	18.3%	-3.1%	**1.7%**	**5.6%**
Operating income	**6.3%**	**-8.2%**	-10.2%	-1.3%	148.8%	-10.3%	**4.8%**	11.1%	2.7%	-22.3%	100.0%	**7.6%**	**6.3%**
Adjusted EPS	**4.5%**	**4.6%**	-24.1%	-5.4%	405.5%	30.4%	**0.0%**	20.6%	5.3%	-12.4%	4.9%	**8.0%**	**3.3%**
Adjusted EPS--Cont'd Ops	**-0.4%**	**3.8%**	-30.2%	-5.6%	480.3%	-231.0%	**-3.3%**	28.8%	7.0%	-14.6%	297.0%	**18.1%**	**6.9%**
Margin Analysis:													
O&M/GM	**34.6%**	**34.1%**	32.3%	25.5%	35.9%	49.6%	**34.3%**	29.4%	25.0%	40.0%	45.5%	**33.5%**	**32.8%**
Tax Rate	**38.6%**	**36.0%**	38.7%	38.5%	37.1%	98.7%	**33.8%**	38.2%	35.0%	39.0%	49.0%	**37.0%**	**37.1%**

Source: Company reports and Hilliard Lyons estimates

Atmos Energy Corp. FYE Sept

Summary Balance Sheet ('000s)	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13p	Q2'13E	Q3'13E	Q4'13E	FY'13E	FY'14E
Cash	$131,952	$131,419	$85,160	$47,040	$27,706	$64,239	$64,239	$124,601	$107,400	$112,260	$112,420	$112,420	$79,670
A/R	273,207	273,303	489,797	350,261	216,753	234,526	234,526	500,863	357,270	218,920	236,870	236,870	236,870
Gas Stored Underground	319,038	289,760	325,669	221,112	239,329	256,415	256,415	274,126	225,530	241,720	258,980	258,980	258,980
Other CAs	150,995	316,471	360,615	275,428	291,870	272,782	272,782	265,044	289,200	306,460	286,420	286,420	300,740
Total Current Assets	875,192	1,010,953	1,261,241	893,841	775,658	827,962	827,962	1,164,634	979,400	879,360	894,690	894,690	876,260
Net PP&E	4,793,075	5,147,918	5,246,213	5,334,012	5,441,886	5,475,604	5,475,604	5,595,294	5,733,740	5,729,100	5,865,510	5,865,510	6,399,640
Goodwill & Intangibles	740,148	740,207	740,196	740,185	740,174	740,847	740,847	740,836	740,840	740,840	740,840	740,840	740,840
Deferred Charges and Other	355,376	383,793	387,982	400,689	392,117	451,262	451,262	463,454	420,720	411,720	473,830	473,830	497,520
Total Assets	$6,763,791	$7,282,871	$7,635,632	$7,368,727	$7,349,835	$7,495,675	$7,495,675	$7,964,218	$7,874,700	$7,761,020	$7,974,870	$7,974,870	$8,514,260
Short-term Debt	126,100	206,396	389,985	173,996	213,491	570,929	570,929	830,891	230,890	155,890	305,890	305,890	355,890
A/P	266,208	291,205	432,332	309,864	178,198	215,229	215,229	367,312	316,060	179,980	217,380	217,380	217,380
Other CLs	413,640	367,563	357,353	374,123	468,409	489,665	489,665	446,717	392,830	491,830	514,150	514,150	539,860
Total Current Liabilities	1,166,079	867,598	1,179,801	1,108,114	1,110,229	1,275,954	1,275,954	1,645,051	939,911	827,831	1,537,420	1,537,420	1,113,130
LTD	1,809,551	2,206,117	2,206,193	1,956,213	1,956,289	1,956,305	1,956,305	1,956,376	2,456,400	2,456,450	1,956,630	1,956,630	2,656,500
Deferred Income Tax	829,128	960,093	981,559	1,062,488	1,085,654	1,015,083	1,015,083	1,066,273	1,127,970	1,128,970	1,129,970	1,129,970	1,255,640
Reg Cost of Removal Obligation	350,521	428,947	437,660	414,001	381,797	381,164	381,164	381,160	381,160	381,160	381,160	381,160	381,160
Deferred Credits and Other	430,164	564,695	562,657	467,199	460,941	507,926	507,926	491,353	496,270	501,230	526,290	526,290	569,350
Shareholders' Equity	$2,178,348	$2,255,421	2,267,762	$2,360,712	$2,354,925	$2,359,243	$2,359,243	$2,424,005	$2,472,989	$2,465,379	$2,443,400	$2,443,400	$2,538,480
Total Liab & SE	$6,763,791	$7,282,871	$7,635,632	$7,368,727	$7,349,835	$7,495,675	$7,495,675	$7,964,218	$7,874,700	$7,761,020	$7,974,870	$7,974,870	$8,514,260

Summary Cash Flow (000's)	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13p	Q2'13E	Q3'13E	Q4'13E	FY'13E	FY'14E
Net Income	205,839	207,601	68,507	109,111	31,132	7,967	216,717	80,465	118,430	21,230	7,600	227,730	235,840
D&A	217,133	233,383	60,811	61,924	61,459	62,383	246,577	60,628	61,550	63,640	63,590	249,410	265,870
Impairments	-	30,270	-	-	-	5,288	5,288	-	-	-	-	-	-
Deferred Income Tax	196,731	117,353	40,042	62,010	18,661	(16,394)	104,319	45,951	61,701	1,000	1,000	109,650	125,660
Cash Provided (Used) by Wrk Cap	55,211	(51,260)	(171,857)	115,417	63,783	30,356	37,699	(195,940)	68,105	80,000	5,000	(42,840)	-
Operating C.F.	674,914	537,347	(2,497)	348,462	175,035	89,600	610,600	(8,896)	309,786	165,870	77,190	543,950	627,370
Cap ex	(542,636)	(622,965)	(154,394)	(156,729)	(186,251)	(235,484)	(732,858)	(190,027)	(200,000)	(200,000)	(200,000)	(790,030)	(800,000)
(Acquisitions) / Divestitures	-	-	-	-	-	128,223	128,223	-	-	141,000	-	141,000	-
Dividends	(124,287)	(124,011)	(31,517)	(31,390)	(31,431)	(31,458)	(125,796)	(31,992)	(31,990)	(32,010)	(32,030)	(128,020)	(130,120)
Free C.F.	7,991	(209,629)	(188,408)	160,343	(42,647)	(49,119)	(119,831)	(230,915)	77,796	74,860	(154,840)	(233,100)	(302,750)
Net Proceeds (Repayment) ST Debt	54,268	83,306	173,905	(222,850)	42,257	360,829	354,141	256,933	(600,000)	(75,000)	150,000	(268,070)	50,000
LT Debt Proceeds	-	394,466	-	-	-	-	-	-	500,000	-	-	500,000	700,000
(Repayment) of LT debt	(131)	(360,131)	(2,303)	(66)	-	(254,665)	(257,034)	-	-	-	-	-	(500,000)
Issued Stock	8,766	7,796	76	88	87	1,355	1,606	(13)	-	-	-	(10)	-
Repurchased Stock & Eq Awards	(101,641)	(5,299)	(15,655)	(389)	(1,710)	-	(17,754)	(3,124)	-	-	-	(3,120)	-
Net C.F.	(6,184)	(20,585)	(25,543)	(56,032)	4,829	65,242	(11,503)	25,881	(17,204)	4,860	160	13,700	(32,750)

Selected Financial Statistics	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12E	Q1'13	Q2'13E	Q3'13E	Q4'13E	FY'13E	FY'14E
Book value	$23.57	$24.88	$25.05	$26.14	$25.88	$25.86	$25.88	$26.55	$27.05	$26.96	$26.70	$26.73	$27.70
Tangible book value	$15.56	$16.71	$16.87	$17.94	$17.75	$17.74	$17.75	$18.43	$18.95	$18.86	$18.61	$18.62	$19.62
Price/book	1.2x	1.3x	1.3x	1.2x	1.4x	1.4x	1.4x	1.3x	1.4x	1.4x	1.4x	1.4x	1.4x
LTD / Total Capital	49.9%	49.5%	49.3%	48.3%	48.4%	45.3%	45.3%	44.7%	49.8%	49.9%	50.1%	50.1%	51.1%
Total Net Debt / Total Capital	49.8%	50.3%	52.5%	49.7%	50.4%	51.1%	51.1%	52.3%	51.1%	50.4%	52.0%	52.0%	53.6%
ROE (DuPont--ROAxFL)	9.5%	9.4%	3.0%	4.7%	1.3%	0.3%	9.4%	3.4%	4.8%	0.9%	0.3%	9.5%	9.5%
Financial Leverage	3.0x	3.2x	3.3x	3.2x	3.1x	3.1x	3.2x	3.2x	3.2x	3.2x	3.2x	3.2x	3.3x
ROA	3.1%	3.0%	0.9%	1.5%	0.4%	0.1%	2.9%	1.0%	1.5%	0.3%	0.1%	2.9%	2.9%

Source: Company reports and Hilliard Lyons Estimates

Analyst Certification

I, Joel K. Havard, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

I, Spencer E. Joyce, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

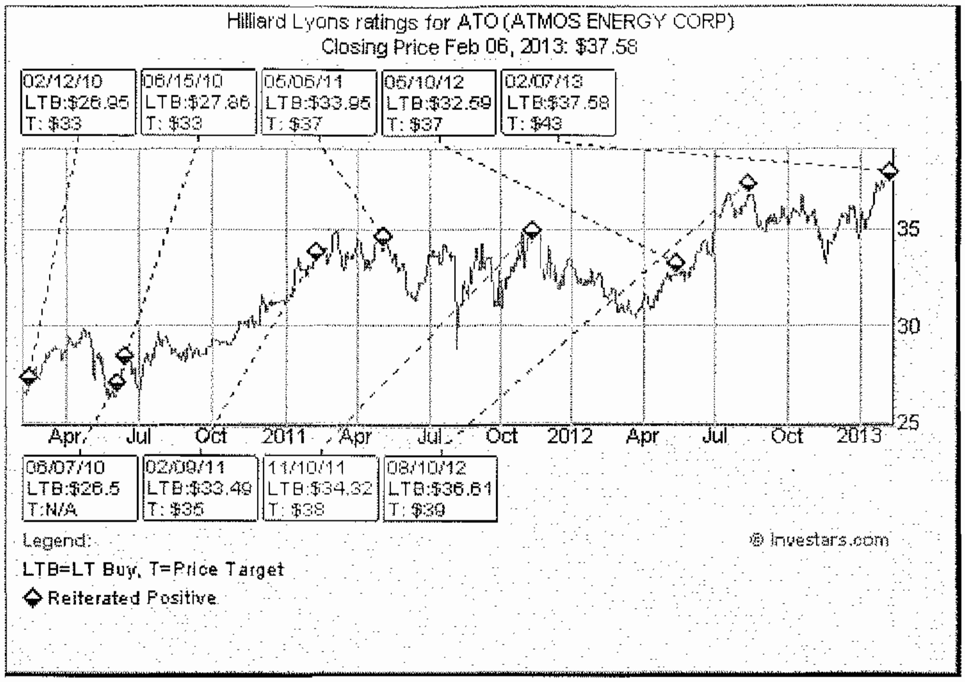
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	57	42%	12%	88%
Hold/Neutral	73	54%	11%	89%
Sell	4	3%	0%	100%
Restricted	2	1%	100%	0%

As of 6 February 2013

Other Disclosures

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HILLIARD LYONS

Natural Gas Utilities
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August 7, 2013

COMPANY UPDATE / TARGET CHANGE
ESTIMATE CHANGE

Key Metrics

ATO - NYSE - as of	8/6/13		$44.10
Price Target			$51.00
52-Week Range		$32.94 -	$45.55
Shares Outstanding (mm)			90.5
Market Cap. ($mm)			$3,993.2
1-Mo. Average Daily Volume			393,277
Institutional Ownership			61.7%
LT Debt/Total Capital	Q3'13		48.8%
ROE	TTM		9.9%
Book Value / Share	Q3'13		$28.20
Price / Book Value			1.6x
Dividend Yield			3.2%
LTM EBITDA Margin			20.8%

EPS FY 9/30 (ex-mark to market adj & one-time items)

	2012A	Prior 2013E	Current 2013E		Prior 2014E	Current 2014E
1Q	$0.61	--	$0.74	A	--	--
2Q	$1.28	--	$1.25	A	--	--
3Q	$0.32	--	$0.42	A	--	--
4Q	*$0.12	$0.17	$0.13		--	--
Year	$2.31	$2.52	$2.55		$2.63	$2.79
P/E	19.1x		17.3x		--	15.8x

Exclusive of one-time items

Firm Gross Profit ($MM)

	2012A	Prior 2013E	Current 2013E		Prior 2014E	Current 2014E
1Q	$355	--	$362	A	--	
2Q	$426	--	$433	A	--	
3Q	$393	--	$316	A	--	
4Q	$249	--	$277		--	
Year	$1,324	--	$1,389		--	$1,501

Company Description: *Headquartered in Dallas, Texas, Atmos is one of the largest natural gas-only distributors in the US with customers in 9 states. ATO has non-utility operations in 22 states. It also provides natural gas marketing and procurement services and manages company owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Atmos Energy Corp.

ATO — NYSE — Long-term Buy-2

Strong Fiscal Q3'13 Results for ATO; Raising Price Target by $4 to $51.

Investment Highlights

- Atmos reported fiscal Q3'13 (April-June) adjusted EPS of $0.42 vs. $0.32 in the year- ago period. Our estimate called for $0.36, while consensus was for $0.37. Not included in adj EPS, ATO logged a ~$0.06/sh after-tax gain on the sale of its GA assets.
- Gross profit (gross margin) from cont'd ops grew 8.0% yr/yr, which was ahead of our 6.2% estimate. Much of the upside was driven by a rate re-design in TX that weighed on 1H'13 gross margin.
- O&M expense rose 14.3%, which was more than expected; however, drivers of incentive compensation and accelerated activity are generally neutral to positive drivers, in our view. Interest expense declined 6.2% on a yr/yr basis.
- Reflecting the upside to Q3 and minimal expense adjustments to our Q4, we are raising our '13 adjusted EPS figure by $0.03 to $2.55; management reiterated previously-issued guidance in the range of $2.45-$2.55.
- Our 2014 adjusted EPS estimate rises by $0.16 to $2.79 on strengthened conviction toward robust growth and execution in the out-year. We expect regulated growth and recovery to drive most growth.
- We are maintaining our Long-term Buy rating but are raising our 2-year price by $4 to $51, which we continue to derive by applying an 18x multiple to our 2014 continuing operations EPS estimate.
- We believe our target methodology is appropriate given ATO's regulated-growth focus, transparent earnings growth prospects, and comparable company multiples.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

ADDITIONAL DISCUSSION—MULTIPLE ITEMS

Reversing a trend from Q1 and Q2, ATO's fiscal Q3 came in solidly above expectations on an EPS basis. A rate redesign that shifted margin out of the winter quarters (fiscal 1H) and into the summer (fiscal 2H) fueled a bit of outsized growth on a yr/yr basis, though we calculate declining interest and miscellaneous expenses aided the quarter as well. Atmos is one of the larger distribution companies in the US with what we view as one of the more complicated cost and debt structures; with these points in mind and as we head into the first few quarters with acquisition/divesture activity fully behind us, we expect the re-focused company to continue to demonstrate operational improvement.

Atmos closed on the sale of its Georgia distribution assets early in Q3 (April). The company logged a ~$0.06/share gain on the sale in fiscal Q3, which was excluded from the adjusted EPS calculation and is not included in company guidance. Proceeds of ~$153MM had positive balance sheet and cash flow impacts on the quarter, in our view, and we note that ATO ended the quarter with net debt under 50% of total capital for the first time since Q2'12.

ADDITIONAL DISCUSSION—FINAL THOUGHTS

Atmos has had an impressive move both YTD and since management unveiled its re-focused vision early last year; however, as opposed to exiting positions, we encourage investors to remain buyers of ATO shares. We continue to believe the broader analyst and investor community has not yet fully recognized the semi-turnaround story at ATO, and we expect multiple expansion to continue given our above-consensus operational outlook and sentiment that we expect to migrate toward the bullish side from a current state of puzzling apathy.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation by customers in order to reduce consumption.

Gas utilities face competition from alternative fuels. In the industrial market, many customers have the capability of using both natural gas as well as another source of energy. Increases in the price of natural gas can negatively impact a competitive position by decreasing the price benefits of natural gas to the end user. The cost of natural gas from non-domestic sources may play a greater role in establishing the market price of natural gas in the future.

Gas utilities are subject to regulation at the federal and state levels. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities. Additionally, we anticipate a high level of capital expenditure over the coming years; inability to access the capital markets may negatively impact the company's growth prospects.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Atmos Energy Corp. FYE Sept

Income Statement ('000s)	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13	Q2'13	Q3'13	Q4'13E	FY'13E	FY'14E
Operating Revenues													
Natural Gas Distribution	2,783,863	2,470,664	676,113	871,067			2,145,330	666,787	905,176			1,571,960	-
Reg Transmission & Storage	203,013	219,373	56,759	58,037			247,351	60,681	61,848			122,530	-
NonReg	2,146,658	2,024,893	444,176	370,763			1,351,303	399,894	428,948		289,240	1,118,080	1,464,830
Intersegment Eliminations	(472,474)	(428,495)	(93,054)	(74,358)			(305,501)	(93,207)	(86,976)			(180,180)	0
Total Operating Revenues	4,661,060	4,286,435	1,083,994	1,225,509			3,438,483	1,034,155	1,308,996		289,240	2,632,390	1,464,830
Purchased Gas Cost													
Natural Gas Distribution	1,785,221	1,452,721	392,518	498,739			1,122,587	387,156	558,170			945,330	-
NonReg	2,032,567	1,959,893	428,771	374,992			1,296,179	377,435	404,641		282,300	1,064,380	1,367,360
Intersegment Eliminations	(470,864)	(426,999)	(92,687)	(74,009)			(304,022)	(92,798)	(86,566)			(179,360)	-
Total Purchased Gas Cost	3,346,924	2,985,615	728,602	799,722			2,114,744	671,793	876,245		282,300	1,830,350	1,367,360
Gross Profit	1,314,136	1,300,820	355,392	425,787	293,171	249,389	1,323,739	362,362	432,751	316,497	276,970	1,388,580	1,500,603
Operating Expenses													
Operations & Maintenance Exp	454,621	442,965	114,644	109,300	106,045	123,624	453,613	106,527	111,086	121,258	133,020	471,890	494,500
D & A	208,539	223,832	58,366	59,420	58,956	60,783	237,525	59,579	57,180	58,129	58,880	233,770	248,350
Taxes, other than Income	187,143	177,767	42,911	54,635	46,624	36,903	181,073	41,334	54,307	50,714	38,780	185,140	216,430
Impairments	-	30,270	-	-	-	5,288	5,288	-	-	-	-	-	-
Total Op Exp	850,303	874,834	215,921	223,355	211,625	226,598	877,499	207,440	222,573	230,101	230,680	890,800	959,280
Operating Income	463,833	425,986	139,471	202,432	81,546	22,791	446,240	154,922	210,178	86,396	46,290	497,780	541,323
Miscellaneous Income (Expense)	(591)	21,184	(2,016)	506	(2,075)	(11,059)	(14,644)	698	1,712	(467)	-	1,940	-
Interest	154,188	150,763	35,726	36,643	34,909	33,896	141,174	30,522	33,331	32,741	32,840	129,430	132,360
Pre-Tax Income	309,054	296,407	101,729	166,295	44,562	(22,164)	290,422	125,098	178,559	53,188	13,450	370,290	408,963
Income Tax	119,203	106,819	39,345	64,211	16,548	(21,878)	98,226	47,750	66,219	19,714	6,590	140,270	153,110
Net Income--Cont'd Ops	189,851	189,588	62,384	102,084	28,014	(286)	192,196	77,348	112,340	33,474	6,860	230,020	255,853
Net Income--Disc Ops	15,988	18,013	6,123	7,027	3,118	8,253	24,521	3,117	4,085	5,294	-	12,496	-
Net income	$205,839	$207,601	68,507	109,111	31,132	7,967	$216,717	80,465	116,425	38,768	6,860	$242,516	$255,853
Average Shares Outstanding (FD)	92,422	90,652	90,546	90,322	90,993	91,224	91,172	91,309	91,492	91,550	91,600		
Net Income per Share	$2.20	$2.27	$0.75	$1.20	$0.34	$0.09	$2.37	$0.88	$1.27	$0.42	$0.07	$2.65	$2.79
MTM gains (losses)	($0.05)	($0.07)	$0.14	($0.07)	$0.02	($0.14)	($0.05)	$0.14	$0.02	($0.06)	($0.06)	$0.04	$0.00
One-time benefits (charges)	$0.05	$0.03	$0.00	$0.00	$0.00	$0.11	$0.11	$0.00	$0.00	$0.06	$0.00	$0.06	$0.00
Adjusted EPS [Cont'd Ops]	$2.03	$2.11	$0.55	$1.20	$0.29	$0.03	$2.04	$0.71	$1.21	$0.43	$0.13	$2.48	$2.79
Adjusted EPS	$2.20	$2.31	$0.61	$1.28	$0.32	$0.12	$2.31	$0.74	$1.25	$0.42	$0.13	$2.55	$2.79
Dividends per share	$1.340	$1.360	$0.345	$0.345	$0.345	$0.345	$1.380	$0.350	$0.350	$0.350	*$0.350*	*$1.400*	*$1.440*
Rate of Change Analysis:									*raised guidance by $0.05 on each end	*Disc Ops on the Qtr is gain on GA sale (4/1)		**EPS Ex-MTM & gain on GA sale guidance: $2.45-$2.55**	
Gross Margin	-0.4%	-1.0%	-2.6%	-6.1%	9.9%	15.7%	1.8%	2.0%	1.6%	8.0%	11.1%	4.9%	8.1%
O&M Expense	-6.4%	-2.6%	0.1%	-4.3%	-5.9%	21.6%	2.4%	-7.1%	1.6%	14.3%	7.6%	4.0%	4.8%
Operating income	6.3%	-8.2%	-10.2%	-4.2%	139.3%	-10.3%	4.8%	11.1%	3.8%	5.9%	103.1%	11.5%	8.7%
Adjusted EPS	4.5%	4.6%	-24.1%	-5.5%	405.5%	30.4%	0.1%	20.6%	-1.8%	31.5%	15.0%	10.5%	9.3%
Adjusted EPS--Cont'd Ops	-0.4%	3.8%	-30.2%	-8.6%	436.6%	-231.0%	-3.2%	28.8%	0.5%	47.9%	402.1%	21.3%	12.7%
Margin Analysis:													
O&M/GM	34.6%	34.1%	32.3%	25.7%	36.2%	49.6%	34.3%	29.4%	25.7%	38.3%	48.0%	34.0%	33.0%
Tax Rate	38.6%	36.0%	38.7%	38.6%	37.1%	98.7%	33.8%	38.2%	37.1%	37.1%	49.0%	37.9%	37.4%

Source: Company reports and Hilliard Lyons estimates

Atmos Energy Corp. FYE Sept

Summary Balance Sheet ('000s)	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13	Q2'13	Q3'13p	Q4'13E	FY'13E	FY'14E
Cash	$131,952	$131,419	$85,160	$47,040	$27,706	$64,239	$64,239	$124,601	$65,547	$31,979	$33,020	$33,020	$12,800
A/R	273,207	273,303	489,797	350,261	216,753	234,526	234,526	500,863	485,601	350,237	243,910	243,910	253,670
Gas Stored Underground	319,038	289,760	325,669	221,112	239,329	256,415	256,415	274,126	197,356	209,101	258,980	258,980	258,980
Other CAs	150,995	316,471	360,615	275,428	291,870	272,782	272,782	265,044	253,916	90,936	286,420	286,420	300,740
Total Current Assets	875,192	1,010,953	1,261,241	893,841	775,658	827,962	827,962	1,164,634	1,002,420	682,253	822,330	822,330	826,190
Net PP&E	4,793,075	5,147,918	5,246,213	5,334,012	5,441,886	5,475,604	5,475,604	5,595,294	5,710,273	5,841,215	5,979,890	5,979,890	6,521,190
Goodwill & Intangibles	740,148	740,207	740,196	740,185	740,174	740,847	740,847	740,836	740,825	740,814	740,810	740,810	740,810
Deferred Charges and Other	355,376	383,793	387,982	400,689	392,117	451,262	451,262	463,454	500,212	538,516	473,830	473,830	497,520
Total Assets	$6,763,791	$7,282,871	$7,635,632	$7,368,727	$7,349,835	$7,495,675	$7,495,675	$7,964,218	$7,953,730	$7,802,798	$8,016,860	$8,016,860	$8,585,710
Short-term Debt	126,100	206,396	389,985	173,996	213,491	570,929	570,929	830,891	232,998	141,998	292,000	292,000	342,000
A/P	266,208	291,205	432,332	309,864	178,198	215,229	215,229	367,312	316,411	229,876	217,380	217,380	217,380
Other CLs	413,640	367,563	357,353	374,123	468,409	489,665	489,665	446,717	377,357	348,706	514,150	514,150	539,860
Total Current Liabilities	1,166,079	867,598	1,179,801	1,108,114	1,110,229	1,275,954	1,275,954	1,645,051	926,766	720,580	1,523,530	1,523,530	1,099,240
LTD	1,809,551	2,206,117	2,206,193	1,956,213	1,956,289	1,956,305	1,956,305	1,956,376	2,455,514	2,455,593	1,956,500	1,956,500	2,656,500
Deferred Income Tax	829,128	960,093	981,559	1,062,488	1,085,654	1,015,083	1,015,083	1,066,273	1,168,140	1,197,274	1,198,270	1,198,270	1,323,940
Reg Cost of Removal Obligation	350,521	428,947	437,660	414,001	381,797	381,164	381,164	371,608	366,854	366,850	366,850	366,850	366,850
Deferred Credits and Other	430,164	564,695	562,657	467,199	460,941	507,926	507,926	500,905	492,986	481,057	505,110	505,110	546,430
Shareholders' Equity	$2,178,348	$2,255,421	2,267,762	$2,360,712	$2,354,925	$2,359,243	$2,359,243	$2,424,005	$2,543,470	$2,581,444	$2,466,600	$2,466,600	$2,592,750
Total Liab & SE	$6,763,791	$7,282,871	$7,635,632	$7,368,727	$7,349,835	$7,495,675	$7,495,675	$7,964,218	$7,953,730	$7,802,798	$8,016,860	$8,016,860	$8,585,710

Summary Cash Flow (000's)	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13	Q2'13	Q3'13	Q4'13E	FY'13E	FY'14E
Net Income	205,839	207,601	68,507	109,111	31,132	7,967	216,717	80,465	116,425	38,768	6,860	242,520	255,850
D&A	217,133	233,383	60,811	61,924	61,459	62,383	246,577	60,628	58,245	58,310	61,330	238,510	258,700
Impairments	-	30,270	-	-	-	5,288	5,288	-	-	-	-	-	-
Deferred Income Tax	196,731	117,353	40,042	62,010	18,661	(16,394)	104,319	45,951	60,940	23,474	1,000	131,370	125,670
Cash Provided (Used) by Wrk Cap	(10,395)	(157,374)	(165,630)	223,582	61,469	42,516	161,937	(167,175)	(17,101)	171,413	13,912	1,050	1,630.00
Operating C.F.	609,308	431,233	3,730	456,627	172,721	101,760	734,838	19,869	218,509	291,965	83,102	613,450	641,850
Cap Ex	(542,636)	(622,965)	(154,394)	(156,729)	(186,251)	(235,484)	(732,858)	(190,027)	(199,090)	(193,356)	(200,000)	(782,470)	(800,000)
(Acquisitions) / Divestitures	-	-	-	-	-	128,223	128,223	-	-	153,023	-	153,020	-
Dividends	(124,287)	(124,011)	(31,517)	(31,390)	(31,431)	(31,458)	(125,796)	(31,992)	(32,016)	(32,052)	(32,060)	(128,120)	(132,080)
Free C.F.	(57,615)	(315,743)	(182,181)	268,508	(44,961)	(36,959)	4,407	(202,150)	(12,597)	219,580	(148,958)	(144,120)	(290,230)
Net Proceeds (Repayment) ST Debt	54,268	83,306	173,905	(222,850)	42,257	360,829	354,141	256,933	(599,074)	(92,943)	150,000	(285,080)	50,000
LT Debt Proceeds	-	394,466	-	-	-	-	-	-	493,793	-	-	493,790	700,000
(Repayment) of LT debt	(131)	(360,131)	(2,303)	(66)	-	(254,665)	(257,034)	-	(131)	-	-	(130.00)	(500,000)
Treasury Unlock	-	47,882	-	-	-	-	-	-	(66,626)	-	-	(66,630)	-
Issued Stock	8,766	7,796	76	88	87	1,355	1,606	(13)	34	(13)	-	10	-
Repurchased Stock & Eq Awards	(101,641)	(5,299)	(15,655)	(389)	(1,710)	-	(17,754)	(3,124)	-	(2,022)	-	(5,150)	-
Net C.F.	(71,790)	(126,699)	(19,316)	52,133	2,515	77,402	112,735	51,646	(184,601)	124,602	1,042	(7,310)	(20,230)

Selected Financial Statistics	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13	Q2'13	Q3'13	Q4'13E	FY'13E	FY'14E
Book value	$24.08	$24.90	$25.05	$26.14	$25.88	$25.86	$25.86	$26.55	$27.80	$28.20	$26.93	$26.96	$28.27
Tangible book value	$15.90	$16.73	$16.87	$17.94	$17.75	$17.74	$17.74	$18.43	$19.70	$20.11	$18.84	$18.86	$20.19
Price/book	1.2x	1.3x	1.3x	1.2x	1.4x	1.4x	1.4x	1.3x	1.5x	1.5x	1.6x	1.6x	1.6x
LTD / Total Capital	49.9%	49.5%	49.3%	48.3%	48.4%	45.3%	45.3%	44.7%	49.1%	48.8%	49.9%	49.9%	50.6%
Total Net Debt / Total Capital	49.8%	50.3%	52.5%	49.7%	50.4%	51.1%	51.1%	52.3%	50.8%	49.8%	52.4%	52.4%	53.5%
ROE (TTM)	9.1%	9.1%	8.8%	7.7%	9.1%	9.3%	9.3%	9.7%	9.8%	9.9%	9.8%	9.8%	9.9%

Source: Company reports and Hilliard Lyons Estimates

Analyst Certification

I, Spencer E. Joyce, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

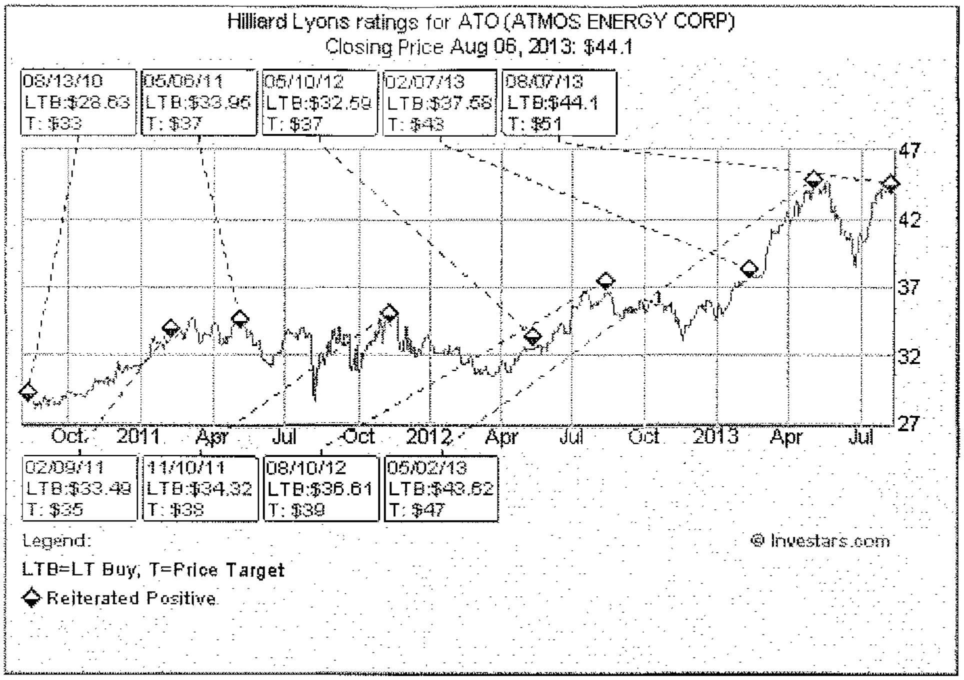
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	48	35%	17%	83%
Hold/Neutral	82	59%	13%	87%
Sell	8	6%	0%	100%
Restricted	1	1%	100%	0%

As of 5 August 2013

Other Disclosures

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HILLIARD LYONS

Comments from 2013 AGA Financial Forum

May 5-7, 2013

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Note Important Disclosures on page 9
Note Analyst Certification on page 9

TABLE OF CONTENTS

2013 AGA FINANCIAL FORUM COMMENTARY AND RECAP

Over the course of three days earlier this month, we networked and conversed with members of the natural gas industry and financial community. Additionally, we met with management from each company within our gas utility coverage group.

Our macro takeaways from the conference were largely positive, though little has changed over the past ~1 year in regard to industry operating dynamics. The low-gas-cost tailwind to utility segments and the CNG as a transportation fuel ideas continue to be germane, but most of the buzz surrounding each has largely subsided, in our estimation. The growth strategy for utility segments is quite similar across the industry, with cost-based service expansions and conversions (residential, industrial and/or power gen) and safety-related infrastructure spending providing the bulk of growth.

Forecasting potential conversation topics over the coming year, we believe organic customer growth driven by housing and/or general economic conditions could move from the periphery and into the spotlight.

On the negative side of the equation, an eventual rise in interest rates was cited as a common risk factor in several meetings, while there was comparatively less concern with rising natural gas prices hampering the cost competitiveness of the fuel. Additionally, the general outlook for gas marketing segments and traditional optimization activities continues to be difficult.

A few comments from each of our official meetings are included below.

Atmos Energy—ATO—Long-term Buy, $47 TP

Heading into the AGA Forum, ATO had been our best performing covered name YTD, and emerging from the event, we believe it could finish the year in the same position. We believe the broader investment community (especially sell-side) has been slow to give Atmos credit for its renewed focus on regulated Cap Ex, and we think the current strategy could garner the stock additional multiple expansion as we move through 2013.

Not much new surfaced during our conversation with Atmos management on a qualitative basis, but we were impressed by the company's conviction toward EPS growth during fiscal '14, despite losing positive impact (we estimate $0.07-$0.10/share) from discontinued operations. We made upward revisions to our forward estimates and price target for ATO prior to the forum and have not made revisions post-conference; however, our bullish conviction in regard to Atmos has strengthened.

Worth noting and in our opinion, ATO continues to be one of the more attractively valued stocks under our industry coverage, despite a ~27% rise YTD. A resilient growth outlook, an attractive relative valuation, and a continued reluctance by the financial community to embrace ATO shares, combine to make Atmos our top pick at current prices for accounts looking to build new core positions in the space.

Chesapeake Utilities Corp—CPK—Buy, $57 TP

We entered our meeting with CPK fresh off strong Q1 earnings, and started our conversation with the drivers of the strong quarter. Unregulated operations (mostly propane distribution) drove much of the upside, and our sense is that several positive factors converged in the first quarter to contribute to strong results. We believe the current run-rate for margin/earnings at the unregulated segment may be a bit lower than what we saw in the prior period, but above the depressed level we saw in Q1'12.

We also spent some time discussing Bravepoint and the company's 'Other' segment, which is largely involved in consulting activities and software development. A remnant from acquisition in the 1980's, this area of the company falls outside of the utility's core business and is of low importance to our growth thesis. Our questions largely centered on the potential risk to the consolidated company should operations turn decidedly negative at this small segment; however, we were happy to learn that just a few million dollars of balance sheet assets are attributable to Bravepoint, and that operations could be scaled back relatively quickly, thus limiting potential operating losses.

On a final note, we discussed the pipeline of regulated growth projects that have been the core of our bullish thesis for CPK. The in-progress projects appear to be largely on-time/on-budget, while we were happy to hear that the macro environment remains intact such that additional projects could be likely.

Laclede Group—LG—Neutral

Our meeting with management from The Laclede Group occurred just a few months following our on-site visit prior to launching coverage. As such, we felt relatively comfortable with our big picture outlook, and spent much of our time drilling into the minutia of several items.

Top on this list, was a discussion of utility gross margin; more specifically, how to calculate and project the utility margin from the company's publicly disclosed financials. We learned during our meeting that our calculation/estimation of utility margin from the income statement will usually be slightly off due to undisclosed segment eliminations. This essentially means gross margin for Laclede Gas (the utility subsidiary) is not knowable, which makes forecasting quite difficult. On a positive note however, we believe the company is evaluating options for altering disclosures to iron out the LG-specific anomaly, which could make our modeling process more exacting.

We also spent some time discussing the Spire initiative and the Laclede Energy Resources (LER) gas marketing segment. On both of these items, we remain cautiously optimistic. We believe the operating environment will remain difficult for LER, but also believe earnings in '13 will be close to a sustainably-low base. We are not modeling material impact from Spire, the company's unregulated foray into CNG filling stations, but we believe Spire represents some upside optionality for LG.

New Jersey Resources—NJR—Neutral

We have held a cautious stance on the business mix and growth prospects of New Jersey Resources for some time now, and our meeting with NJR management did little to change our outlook, either positively or negatively. We continue to hold a more bearish outlook for solar activities than the company; management expects fixed cost leverage and firming SREC prices to bolster cash flow (EBITDA) on a go-forward basis, but we still believe the overhang of ITCs will weigh on consolidated earnings growth (and valuation multiples/the stock price) over the next several years. Furthermore, we have been hearing about 'firming SREC prices' for well over a year now, and while some recovery from all-time lows has occurred, we do not view the projection of an SREC price rebound as an investable theme.

On a more positive note, the company continues to expect no lasting impact from Superstorm Sandy. Elevated Cap Ex is likely to be recovered via a future rate case filing, and management is still comfortable that deferred operations and maintenance expense related to the storm will be recovered in much the same fashion. Our overall view of the utility segment is positive and largely in agreement with management's outlook. Relative to our prior opinion, we were slightly disappointed to hear that the company expects the segment to grow at just 2-3% over the next several years; however, we do view this growth as fairly resilient.

Northwest Natural Gas—NWN—Neutral

One of our more productive meetings of the forum was our sit down with the management from Northwest Natural. It has been a difficult few quarters and past couple of years for the firm, largely stemming from legislative/regulatory action; with numerous moving parts, we believe our meeting was valuable from the standpoint of helping us determine the trajectory for NWN on a go-forward basis.

We gained a substantial element of clarity on the four outstanding items from the Oregon rate case settled in Q4 of 2012. Over the course of 2013, we see a slight element of negative headline risk, but believe 'worst case' outcomes are likely reflected in the low-end of guidance. Moving out to 2014, we believe the company could see some additional margin allowance from its request to recover pre-paid pension expense; however, in total we see lesser potential upside from the outstanding items than we had hoped.

Aside from the extra rate case items, we continue to believe the company's storage assets hold significant upside optionality. We believe in-place capacity will eventually contribute to growth, though we believe the timeframe remains uncertain; a planned expansion however, could begin contributing AFUDC (allowance for funds used during construction, an offset to interest expense) in 2014, with additional margin impact in 2016. Also in 2016, we note that the company's 5-year $250MM investment program into producing gas wells (recoverable in rate base) will have expired, and the potential for an upsized/downsized second program presents both upside and downside risk, in our view.

Emerging from our meeting, we were somewhat disappointed that we did not uncover any immediate potential catalysts for both the company and the stock, but we were happy with the long-term story. Should NWN shares continue to underperform, we believe investors may ultimately receive a good entry point as we move closer to potential drivers in 2014 and beyond.

Piedmont Natural Gas—PNY—Long-term Buy, $36 TP

Perhaps the least eventful of our eight meetings was our sit-down with the team from PNY; however, this is somewhat the essence of our bullish outlook for the company. Piedmont continues to pursue and execute a strategy focused on regulated growth projects, and management reiterated their commitment to staying close to their core competency. We believe this stable strategy has been the driver of, and will continue to be the justification for, PNY's premium valuation relative to the peer group.

On a more granular basis, we discussed several pieces of legislation in TN and NC that could help ease regulatory lag in the future. A recently-passed bill in Tennessee paves the way for gas utilities to file for tracker mechanisms (surcharges) for a variety of programs, while a pending bill in North Carolina would allow gas utilities to request a surcharge program for federally mandated safety improvements. Additionally, we discussed the upcoming rate case in NC, which should be filed by 5/30/13, and the Constitution Pipeline project, which should be operational during 2015. Each of these items was not necessarily new to our outlook; however, in combination, we believe they provide some upside optionality to the Piedmont story and will likely keep conversations positive over the balance of 2013.

South Jersey Industries—SJI—Underperform

Most of our discussion with South Jersey pertained to clean energy investments. Foremost of our concerns was the declining operating income of the On-Site Energy Production reporting segment, despite a growing asset base and an increasing level of property additions (Cap Ex). As impact from upfront tax credits wanes, we believe SJI will ultimately be valued on the basis of what benefit it can generate on an on-going basis, hence our high level of skepticism driven by weak operating income.

With respect to this specific granular question of operating income, management seemed to attribute the declines and the overall weak cash generation profile of the reportable segment to several one-time items such as development costs and declining SREC prices. We concede a few start up costs likely weighed on results the past few years; however, we fail to see a path where the non-utility projects reach the on-going profitability levels of the utility segment. With this in mind, we believe SJI is likely to suffer ROA/ROE pressure as ITCs decline, which we believe should drive overall multiple compression. Furthermore, as referenced in the comments on NJR, we do not view a 'rebound in SRECs' as an investable theme.

At AGA, management rolled out their first break-out (to our knowledge) of the drivers that could replace ITC earnings over the next few years. We believe the company's base-case is on the aggressive side, but more troubling, the case only assumes an ITC falloff of $6.5-10.5MM thru-2015 (versus a 2012 base level of ~$26MM), which be believe only addresses about half of the ultimate decline.

On a brighter note, we spent some time discussing the utility segment, which suffered few effects of Superstorm Sandy and continues to perform well. In fact, management expects utility earnings to grow at an average annual rate of 8-12% thru 2015, which is significantly higher than their 4-8% growth projection for the non regulated side of the business. With positive customer growth tailwinds and a rate case upcoming, we continue to like South Jersey Gas, the utility subsidiary, but believe market misunderstanding of the consolidated entity presents material risk to the stock price.

WGL Holdings—WGL—Neutral

Of our eight covered companies, we probably spent the most time at AGA with the management from WGL Holdings as we attended a company-hosted dinner in addition to our traditional 1x1 meeting. We have left our newly assigned Neutral rating intact in the aftermath of our meetings; however, our qualitative view of the firm has strengthened.

We did a fair amount of housekeeping during our time with WGL, addressing one-off topics such as the Commonwealth Pipeline and the Chillum LNG project. The former is currently 'on-hold', while the latter has been essentially cancelled. While both are somewhat negative headlines, the recent events should not drive any downside to our published estimates. Another special item that could drive a bit of upside is new Strategic Infrastructure Development and Enhancement Program (STRIDE) legislation in Maryland, which allows for more timely recovery of safety-related infrastructure projects. Unfortunately the plan is not expected to drive additional capital spending, though it should reduce regulatory lag, and could be a harbinger of a more positive regulatory environment in state.

Shifting the conversation toward more on-going operations, we spent some time discussing the firm's foray into solar installations. Unique among our coverage group, WGL is diversified outside of the New Jersey solar market and is amortizing its earned ITCs over many years in order to maintain a more normalized effective tax rate and neutralize the potential 'earnings cliff' problem. We were particularly pleased to see the company breakout its expected benefit by driver (ITC v electricity sales, etc) for its solar operations, something we have not seen from the Jersey firms in some time. Furthermore, management expects just $0.08/share in earnings contribution from its Commercial Energy Systems segment (solar) this year, meaning its solar exposure is still on the periphery.

HILLIARD LYONS NATURAL GAS UTILITY COVERAGE COMPARABLES

Actual // *Estimate*

Company	Ticker	Price 21-May-13	Target Price	Rating	Rev TTM ($MM's)	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	EPS FY'12	EPS FY'13E	EPS FY'14E	P / E FY'12	P / E FY'13E	P / E FY'14E	5-Yr Avg P/E	3-Yr Avg EPS Growth	Curr EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
Atmos Energy	ATO	$ 44.73	$ 47	LT Buy	3,437	4,046.4	1.6x	49.0	$2.31	*$2.52*	*$2.63*	19.4x	17.7x	17.0x	14.1x	0%	9.5x	3.1%	59	2.2%	450,505
Chesapeake Utilities	CPK	$ 54.13	$ 57	Buy	412	520.5	2.0x	27.0	$2.99	*$3.55*	*$3.52*	18.1x	15.3x	15.4x	14.4x	2%	7.9x	2.8%	43	1.6%	29,748
The Laclede Group	LG	$ 46.37	--	Neutral	1,061	1,046.7	1.6x	42.0	$2.79	*$2.90*	*$3.22*	16.6x	16.0x	14.4x	14.1x	9%	8.4x	3.7%	55	7.5%	165,935
New Jersey Resources	NJR	$ 47.10	--	Neutral	2,690	1,969.3	2.2x	38.0	$2.71	*$2.60*	*$2.67*	17.4x	18.1x	17.7x	16.5x	9%	16.2x	3.4%	69	5.8%	148,512
Northwest Natural	NWN	$ 45.53	--	Neutral	704	1,226.5	1.6x	48.0	$2.33	*$2.27*	*$2.39*	19.6x	20.1x	19.0x	17.3x	-7%	9.3x	4.0%	82	5.8%	118,564
Piedmont Natural Gas	PNY	$ 35.15	$ 36	LT Buy	1,167	2,667.0	2.3x	44.0	$1.66	*$1.72*	*$1.79*	21.2x	20.4x	19.6x	18.0x	2%	13.4x	3.5%	68	4.9%	351,207
South Jersey Industries	SJI	$ 61.12	--	Undrpf	707	1,940.3	2.6x	44.0	$3.03	*$3.13*	*$3.20*	20.2x	19.6x	19.1x	17.4x	8%	16.6x	2.9%	59	3.5%	122,836
WGL Holdings	WGL	$ 45.70	--	Neutral	2,436	2,361.2	1.7x	28.0	$2.68	*$ 2.61*	*$ 2.67*	17.0x	17.5x	17.1x	14.9x	5%	8.6x	3.7%	56	2.3%	195,485
					Averages:		2.0x	40.0				18.7x	18.1x	17.4x	15.8x	3.5%	11.2x	3.4%	61	4.2%	

Source: Company reports, Baseline, and Hilliard Lyons estimates

ATO, LG, NJR and WGL (September fiscal year-end); PNY (October fiscal year-end)

NATURAL GAS UTILITY INDUSTRY COMPARABLES

Actual // *Estimate*

Company	Tkr	Price 21-May-13	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	Consensus EPS FY'12	Consensus EPS FY'13E	Consensus EPS FY'14E	Consensus P / E FY'12	Consensus P / E FY'13E	Consensus P / E FY'14E	5-Yr Avg P/E	3-Yr Avg EPS Growth	TTM EBITDA/ Share	Current EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
AGL Resources	GAS	$ 44.48	5,243.1	1.5x	49.0	$2.46	*$2.64*	*$2.75*	18.1x	16.8x	16.2x	13.2x	-10%	$9.13	8.8x	4.2%	74	2.1%	549,870
Atmos Energy	ATO	$ 44.73	4,046.4	1.6x	49.0	$2.22	*$2.49*	*$2.64*	20.1x	18.0x	16.9x	14.1x	0%	$7.74	9.5x	3.1%	59	2.2%	450,505
Chesapeake Utilities	CPK	$ 54.13	520.5	2.0x	27.0	$2.98	*$3.39*	*$3.46*	18.2x	16.0x	15.6x	14.4x	2%	$8.91	7.9x	2.8%	43	1.6%	29,748
Delta Natural Gas	DGAS	$ 22.35	153.2	2.2x	44.0	$0.85	*$1.01*	*$1.02*	26.3x	22.1x	21.9x	12.5x	-17%	$3.05	9.5x	3.2%	62	1.7%	10,290
Gas Natural	EGAS	$ 10.61	89.0	1.2x	35.0	$0.58	*$0.67*	*$0.80*	18.3x	15.8x	13.3x	13.0x	-33%	$2.35	7.6x	5.1%	72	0.2%	20,992
Laclede Group	LG	$ 46.37	1,046.7	1.6x	42.0	$2.78	*$2.87*	*$3.00*	16.7x	16.2x	15.5x	14.1x	9%	$7.23	8.4x	3.7%	55	7.5%	165,935
National Fuel Gas	NFG	$ 64.00	5,343.4	2.6x	45.0	$2.59	*$3.08*	*$3.09*	24.7x	20.8x	20.7x	18.1x	0%	$9.01	9.2x	2.3%	52	3.6%	564,705
New Jersey Resources	NJR	$ 47.10	1,969.3	2.2x	38.0	$2.70	*$2.64*	*$2.72*	17.4x	17.8x	17.3x	16.5x	9%	$4.29	16.2x	3.4%	69	5.8%	148,512
Northwest Natural Gas	NWN	$ 45.53	1,226.5	1.6x	48.0	$2.32	*$2.26*	*$2.37*	19.6x	20.1x	19.2x	17.3x	-7%	$8.16	9.3x	4.0%	82	5.8%	118,564
ONEOK	OKE	$ 49.34	10,111.5	4.8x	75.0	$1.69	*$1.77*	*$2.21*	29.2x	27.9x	22.3x	18.3x	4%	$5.80	14.3x	2.9%	83	2.1%	1,539,626
Piedmont Natural Gas	PNY	$ 35.15	2,667.0	2.3x	44.0	$1.66	*$1.73*	*$1.81*	21.2x	20.3x	19.4x	18.0x	2%	$4.16	13.4x	3.5%	68	4.9%	351,207
South Jersey Industries	SJI	$ 61.12	1,940.3	2.6x	44.0	$3.04	*$3.15*	*$3.46*	20.1x	19.4x	17.7x	17.4x	8%	$5.34	16.6x	2.9%	59	3.5%	122,836
Southwest Gas	SWX	$ 50.72	2,348.1	1.8x	48.0	$2.87	*$2.90*	*$3.05*	17.7x	17.5x	16.6x	15.8x	8%	$10.67	7.2x	2.6%	45	1.7%	159,246
UGI Corp.	UGI	$ 41.98	4,751.2	2.0x	57.0	$1.83	*$2.47*	*$2.81*	22.9x	17.0x	14.9x	13.3x	-6%	$8.56	8.2x	2.7%	48	1.5%	668,957
WGL	WGL	$ 45.70	2,361.2	1.7x	28.0	$2.69	*$2.49*	*$2.65*	17.0x	18.4x	17.2x	14.9x	5%	$7.11	8.6x	3.7%	56	2.3%	195,485
Averages:				2.1x	44.9				20.5x	18.9x	17.7x	15.4x	-1.7%		10.3x	3.3%	61.8	3.1%	

Source: Company reports and Baseline

RECENTLY PUBLISHED RESEARCH (listed chronologically)

Artesian Resources Corp. (ARTNA - $22.75, Neutral) 5/9/13: Major Q1 Miss from ARTNA.

York Water Group (YORW - $18.98, Neutral) 5/9/13: Nice Q1'13 Results for YORW.

American Water Works Co. (AWK - $42.41, Buy, $46 TP) 5/8/13: Q1'13 Results; Thesis Intact, Edging Price Target Higher by $1 to $46.

South Jersey Industries (SJI - $59.89, Underperform) 5/6/13: Second Sequential Miss for SJI in Q1'13; Full Year Guidance Below Consensus.

Aqua America (WTR - $32.94, Long-term Buy, $35 TP) 5/3/13: Strong Q1'13 Results for WTR; Lowering Rating to Long-term Buy from Buy on Weaker Catalysts.

Chesapeake Utilities Corp. (CPK - $54.13, Buy, $57 TP) 5/3/13: Q1'13 Beat for CPK; Thesis Intact; Raising Price Target by $1 to $57.

Northwest Natural Gas Co. (NWN - $45.53, Neutral) 5/3/13: Q1'13 Results for NWN; Outlook Improving, but Waiting for Catalyst.

WGL Holdings, Inc. (WGL - $45.70, Neutral) 5/3/13: Fiscal Q2 Results for WGL; Downgrading to Neutral on Recent Price Strength.

Atmos Energy Corp. (ATO - $44.73, Long-term Buy, $47 TP) 5/2/13: Fiscal Q2'13 Results for ATO; Raising Price Target by $4 to $47.

California Water Service Group (CWT - $20.40, Neutral) 5/2/13: Q1'13 Results for CWT; Neutral Stance Intact.

New Jersey Resources Corp. (NJR - $47.10, Neutral) 5/2/13: Fiscal Q2'13 Results; Preliminary Outlook Unchanged.

Laclede Group, Inc. (LG - $46.37, Neutral) 4/30/13: Fiscal Q2'13 Results.

South Jersey Industries (SJI - $61.12, Underperform) 4/22/13: Downgrading SJI to Underperform. Outlook Unchanged; Price Strength Shifts Risk/Reward.

Piedmont Natural Gas Co. (PNY - $35.15, Long-term Buy, $36 TP) 3/7/13: Solid Fiscal Q1 Results for PNY; Raising Price Target by $1 to $36.

Additional information is available upon request.

Prices and all price sensitive data as of Tuesday, May 21, 2013, close

Analyst Certification

I, Spencer E. Joyce, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of California Water Service Group in the past 12 months.

Hilliard Lyons expects to receive investment banking compensation from California Water Service Group in the coming 3 months.

Definitions of Ratings: **Buy** - We believe the stock has significant total return potential in the coming 12 months. **Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues. **Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise. **Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

Definitions of Suitabilities: **1** - A large cap, core holding with a solid history. **2** - A historically secure company that could be cyclical, have a shorter history than a "1" or is subject to event driven setbacks. **3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage. **4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	48	35%	13%	88%
Hold/Neutral	84	60%	13%	87%
Sell	6	4%	0%	100%
Restricted	1	1%	100%	0%

As of 8 May 2013

Other Disclosures

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HILLIARD LYONS

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May 2, 2013

COMPANY UPDATE / TARGET CHANGE
ESTIMATE CHANGE

Key Metrics

ATO - NYSE - as of	5/1/13		$43.62
Price Target			$47.00
52-Week Range		$32.10 -	$44.55
Shares Outstanding (mm)			90.5
Market Cap. ($mm)			$3,946.0
1-Mo. Average Daily Volume			491,613
Institutional Ownership			60.9%
LT Debt/Total Capital	Q2'13		49.1%
ROE	FY'12		9.4%
Book Value / Share	Q2'13		$27.80
Price / Book Value			1.6x
Dividend Yield			3.2%
LTM EBITDA Margin			21.0%

EPS FY 9/30 (ex-mark to market adj & one-time items)

	2012A	Prior 2013E	Current 2013E		Prior 2014E	Current 2014E
1Q	$0.61	--	$0.74	A	--	--
2Q	$1.28	--	$1.25	A	--	--
3Q	$0.32	$0.28	$0.36		--	--
4Q	*$0.12	$0.12	$0.17		--	--
Year	$2.31	$2.49	$2.52		$2.57	$2.63
P/E	18.9x		17.3x		--	16.6x

Exclusive of one-time items

Revenue ($MM)

	2012A	Prior 2013E	Current 2013E		Prior 2014E	Current 2014E
1Q	$1,101	--	$1,034	A	--	
2Q	$1,246	$1,267	$1,267		--	
3Q	$586	$581	$588		--	
4Q	$508	$725	$574		--	
Year	$3,438	$3,757	$3,599		--	$3,759

Company Description: *Headquartered in Dallas, Texas, Atmos is one of the largest natural gas-only distributors in the US with customers in 9 states. ATO has non-utility operations in 22 states. It also provides natural gas marketing and procurement services and manages company owned natural gas storage and pipeline assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Atmos Energy Corp.

ATO — NYSE — Long-term Buy-2

Fiscal Q2'13 Results for ATO; Raising Price Target by $4 to $47.

Investment Highlights

- Atmos Energy Corp. reported fiscal Q2'13 (ending 3/31/13) adjusted EPS of $1.25 vs. $1.28 in the year ago period. Adjusted EPS from continuing operations were $1.21 versus $1.20 in Q2'12.
- Consensus called for earnings of $1.31/share, while we were projecting $1.35. These figures are likely most-closely comparable to the adjusted figure of $1.25/share. Despite the miss to consensus, the company raised '13 EPS guidance by a nickel on both ends to a new range of $2.45-$2.55.
- Gross profit (gross margin) from continuing operations grew 1.6% yr/yr in Q2, which was slightly ahead of our 1.3% estimate. O&M expense remained a stable 25.7% of margin yr/yr, while interest expense declined 9% in the quarter on a yr/yr basis.
- Cap Ex in Q2'13 grew ~27% yr/yr, with much of upside continuing to be dedicated toward regulated growth projects.
- Positive revisions outweigh the downside to our Q2, and we are raising our full year adjusted EPS figure (comparable to company guidance) by $0.03 to $2.52; our fiscal '13 continuing ops EPS estimate rises by $0.01 to $2.41. We are raising our 2014 adjusted EPS estimate by $0.06 to $2.63.
- We are maintaining our Long-term Buy rating on ATO and are raising our 2-year price target higher by $4 to $47. Our target is derived by applying an 18x multiple to our 2014 continuing operations EPS estimate. We believe this is appropriate given ATO's growth strategy and broader industry valuations.

Note Important Disclosures on Pages 6-7
Note Analyst Certification on Page 6

ADDITIONAL DISCUSSION—MULTIPLE ITEMS

As was the case in Q1, results in Q2 were technically below expectations on an EPS basis, though we believe analysts continue to have trouble adjusting to a couple of rate-design shifts in Texas that will move margin into the summer quarters (the upcoming fiscal Q3 and Q4). We commend the company for keeping expenses in check as referenced in our opening points, and believe the positive trend can stay generally intact.

Atmos closed on the sale of its Georgia distribution assets early during the in-progress quarter. Management expects to record a ~$0.07/share gain on the sale in fiscal Q3, though this amount is not included in guidance or our estimates. We expect the ~$141MM in net proceeds from the sale to be re-deployed into regulated growth projects in core service territories.

We believe our target multiple expansion is warranted given the valuations of ATO's most closely comparable peer companies and our view toward the attainability of management's long-term rate base and EPS growth targets. Atmos is just starting to report the financial results from its strategy shift, and we believe the company can continue to trim valuation discounts relative to peers given our view for positive yr/yr quarters to persist over the near to intermediate term. We believe both analysts and investors have been slow to acknowledge the semi-turnaround story at ATO, which has seen the company take steps to jettison non-core operations in four states, effectively manage expenses, and re-focus growth on low-risk stable-return regulated projects.

ADDITIONAL DISCUSSION—FINAL THOUGHTS

Atmos has been rising fairly quickly recently, and while we believe upside remains, we urge investors to temper expectations. We believe a sentiment shift and the likely resultant multiple expansion holds the potential to move shares significantly higher over a short-term timeframe; however, our core investment thesis is predicated on trends and projects we expect to develop relatively slowly and impact financial performance in small increments.

We are scheduled to meet with ATO management on Sunday, May 5, and expect to refine our outlook and opinion during the meeting. We will update investors as-needed of material changes in our opinion during the following week of May 6-10.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation by customers in order to reduce consumption.

Gas utilities face competition from alternative fuels. In the industrial market, many customers have the capability of using both natural gas as well as another source of energy. Increases in the price of natural gas can negatively impact a competitive position by decreasing the price benefits of natural gas to the end user. The cost of natural gas from non-domestic sources may play a greater role in establishing the market price of natural gas in the future.

Gas utilities are subject to regulation at the federal and state levels. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities. Additionally, we anticipate a high level of capital expenditure over the coming years; inability to access the capital markets may negatively impact the company's growth prospects.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Atmos Energy Corp. FYE Sept

Income Statement ('000s)	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13	Q2'13p	Q3'13E	Q4'13E	FY'13E	FY'14E
Operating Revenues													
Natural Gas Distribution	2,783,863	2,470,664	676,113				2,145,330	666,787		352,140	314.740	1,333,670	2,393,360
Reg Transmission & Storage	203,013	219,373	56,759				247,351	60,681		67,070	65,480	193,230	253,290
NonReg	2,146,658	2,024,893	444,176				1,351,303	399,894		269,060	294,120	963,070	1,502,430
Intersegment Eliminations	(472,474)	(428,495)	(93,054)				(305,501)	(93,207)		(100,000)	(100,000)	(293,210)	(390,000)
Total Operating Revenues	4,661,060	4,286,435	1,083,994				3,438,483	1,034,155		588,270	574,340	2,196,760	3,759,080
Purchased Gas Cost													
Natural Gas Distribution	1,785,221	1,452,721	392,518				1,122,587	387,156		133,810	129,040	650,010	1,282,610
NonReg	2,032,567	1,959,893	428,771				1,296,179	377,435		236,070	280,970	894,480	1,418,320
Intersegment Eliminations	(470,864)	(426,999)	(92,687)				(304,022)	(92,798)		(99,000)	(99,000)	(290,800)	(389,000)
Total Purchased Gas Cost	3,346,924	2,985,615	728,602				2,114,744	671,793		270,880	311,010	1,253,690	2,311,930
Gross Profit	1,314,136	1,300,820	355,392	425,787	298,790	249,389	1,323,739	362,362	432,751	317,390	263,330	1,375,833	1,447,150
Operating Expenses													
Operations & Maintenance Exp	454,621	442,965	114,644	109,300	107,295	123,624	453,613	106,527	111,086	120.610	119.820	458,040	469,490
D & A	208.539	223,832	58,366	59,420	59,819	60,783	237,525	59,579	57.180	60.840	60,810	238,410	254,010
Taxes, other than Income	187,143	177,767	42,911	54,635	46,887	36,903	181,073	41,334	54.307	63,480	36,870	195,990	206,780
Impairments	-	30,270	-	-	-	5,288	5,288	-	-	-	-	-	-
Total Op Exp	850,303	874,834	215,921	223,355	214,001	226,598	877,499	207,440	222,573	244,930	217,500	892.440	930,280
Operating Income	463,833	425,986	139,471	202,432	84,789	22,791	446,240	154,922	210,178	72,460	45,830	483,393	516,870
Miscellaneous Income (Expense)	(591)	21,184	(2,016)	506	(1,948)	(11,059)	(14,644)	698	1,712.00	-	-	2,410	-
Interest	154,188	150,763	35,726	36,643	34,923	33,896	141,174	30,522	33,331	32,830	32,930	129,610	132,720
Pre-Tax Income	309,054	296,407	101.729	166,295	47,918	(22,164)	290,422	125,098	178,559	39,630	12,900	356,193	384,150
Income Tax	119,203	106,819	39,345	64,211	17,774	(21,878)	98,226	47,750	66,219	15,460	6,320	135,750	142,840
Net Income--Cont'd Ops	189,851	189,588	62,384	102,084	30,144	(286)	192,196	77,348	112,340	24,170	6,580	220,443	241,310
Net Income--Disc Ops	15,988	18,013	6,123	7,027	988	8,253	24,521	3,117	4,085	1,500	1,500	10,202	-
Net income	$205,839	$207,601	68,507	109,111	31,132	7,967	$216,717	80,465	116,425	25,670	8,080	$230,645	$241,310
Average Shares Outstanding (FD)	92,422	90,652	90,546	90,322	90,993	91,224	91,172	91,309	91,492	91,542	91,592		
Net Income per Share	$2.20	$2.27	$0.75	$1.20	$0.34	$0.09	$2.37	$0.88	$1.27	$0.28	$0.09	$2.52	$2.63
MTM gains (losses)	($0.05)	($0.07)	$0.14	($0.07)	$0.02	($0.14)	($0.05)	$0.14	$0.02	($0.08)	($0.08)	$0.00	$0.00
One-time benefits (charges)	$0.05	$0.03	$0.00	$0.00	$0.00	$0.11	$0.11	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Adjusted EPS [Cont'd Ops]	$2.03	$2.11	$0.55	$1.20	$0.31	$0.03	$2.04	$0.71	$1.21	$0.34	$0.15	$2.41	$2.63
Adjusted EPS	$2.20	$2.31	$0.61	$1.28	$0.32	$0.12	$2.31	$0.74	$1.25	$0.36	$0.17	$2.52	$2.63
Dividends per share	$1.340	$1.360	$0.345	$0.345	$0.345	$0.345	$1.380	$0.350	$0.350	*$0.350*	*$0.350*	*$1.400*	*$1.440*
Rate of Change Analysis:									*raised guidance by $0.05 on each end	**$6MM or $0.07/share gain on sale*		**EPS Ex-MTM & gain on GA sale guidance: $2.45-$2.55**	
Gross Margin	-0.4%	-1.0%	-2.6%	-6.1%	12.0%	15.7%	1.8%	2.0%	1.6%	6.2%	5.6%	3.9%	5.2%
O&M Expense	-6.4%	-2.6%	0.1%	-4.3%	-4.8%	21.6%	2.4%	-7.1%	1.6%	12.4%	-3.1%	0.4%	6.5%
Operating income	6.3%	-8.2%	-10.2%	-4.2%	148.8%	-10.3%	4.8%	11.1%	3.8%	-14.5%	101.1%	8.3%	6.9%
Adjusted EPS	4.5%	4.6%	-24.1%	-5.5%	405.5%	30.4%	0.1%	20.6%	-1.8%	11.9%	43.4%	9.2%	4.3%
Adjusted EPS--Cont'd Ops	-0.4%	3.8%	-30.2%	-8.6%	480.3%	-231.0%	-3.2%	28.8%	0.5%	10.5%	465.2%	18.1%	9.2%
Margin Analysis:													
O&M/GM	34.6%	34.1%	32.3%	25.7%	35.9%	49.6%	34.3%	29.4%	25.7%	38.0%	45.5%	33.3%	32.4%
Tax Rate	38.6%	36.0%	38.7%	38.6%	37.1%	98.7%	33.8%	38.2%	37.1%	39.0%	49.0%	38.1%	37.2%

Source: Company reports and Hilliard Lyons estimates

Atmos Energy Corp. FYE Sept

Summary Balance Sheet ('000s)	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13	Q2'13	Q3'13E	Q4'13E	FY'13E	FY'14E
Cash	$131,952	$131,419	$85,160	$47,040	$27,706	$64,239	$64,239	$124,601	$65,547	$28,030	$28,390	$28,390	($1,540)
A/R	273,207	273,303	489,797	350,261	216,753	234,526	234,526	500,863	485,601	218,920	236,870	236,870	236,870
Gas Stored Underground	319,038	289,760	325,669	221,112	239,329	256,415	256,415	274,126	197,356	241,720	258,980	258,980	258,980
Other CAs	150,995	316,471	360,615	275,428	291,870	272,782	272,782	265,044	253,916	306,460	286,420	286,420	300,740
Total Current Assets	875,192	1,010,953	1,261,241	893,841	775,658	827,962	827,962	1,164,634	1,002,420	795,130	810,660	810,660	795,050
Net PP&E	4,793,075	5,147,918	5,246,213	5,334,012	5,441,886	5,475,604	5,475,604	5,595,294	5,710,273	5,705,890	5,842,550	5,842,550	6,377,670
Goodwill & Intangibles	740,148	740,207	740,196	740,185	740,174	740,847	740,847	740,836	740,825	740,830	740,830	740,830	740,830
Deferred Charges and Other	355,376	383,793	387,982	400,689	392,117	451,262	451,262	463,454	500,212	411,720	473,830	473,830	497,520
Total Assets	$6,763,791	$7,282,871	$7,635,632	$7,368,727	$7,349,835	$7,495,675	$7,495,675	$7,964,218	$7,953,730	$7,653,570	$7,867,870	$7,867,870	$8,411,070
Short-term Debt	126,100	206,396	389,985	173,996	213,491	570,929	570,929	830,891	232,998	158,000	308,000	308,000	358,000
A/P	266,208	291,205	432,332	309,864	178,198	215,229	215,229	367,312	316,411	179,980	217,380	217,380	217,380
Current Maturity LT Debt	360,131	2,434	131	250,131	250,131	131	131	131	-	131	500,000	500,000	-
Other CLs	413,640	367,563	357,353	374,123	468,409	489,665	489,665	446,717	377,357	491,830	514,150	514,150	539,860
Total Current Liabilities	1,166,079	867,598	1,179,801	1,108,114	1,110,229	1,275,954	1,275,954	1,645,051	926,766	829,941	1,539,530	1,539,530	1,115,240
LTD	1,809,551	2,206,117	2,206,193	1,956,213	1,956,289	1,956,305	1,956,305	1,956,376	2,455,514	2,456,450	1,956,630	1,956,630	2,656,500
Deferred Income Tax	829,128	960,093	981,559	1,062,488	1,085,654	1,015,083	1,015,083	1,066,273	1,168,140	1,169,140	1,170,140	1,170,140	1,296,090
Reg Cost of Removal Obligation	350,521	428,947	437,660	414,001	381,797	381,164	381,164	371,608	200,000	200,000	200,000	200,000	200,000
Deferred Credits and Other	430,164	564,695	562,657	467,199	460,941	507,926	507,926	500,905	659,840	666,440	699,760	699,760	757,020
Shareholders' Equity	$2,178,348	$2,255,421	2,267,762	$2,360,712	$2,354,925	$2,359,243	$2,359,243	$2,424,005	$2,543,470	$2,331,599	$2,301,810	$2,301,810	$2,386,220
Total Liab & SE	$6,763,791	$7,282,871	$7,635,632	$7,368,727	$7,349,835	$7,495,675	$7,495,675	$7,964,218	$7,953,730	$7,653,570	$7,867,870	$7,867,870	$8,411,070

Summary Cash Flow (000's)	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13	Q2'13	Q3'13E	Q4'13E	FY'13E	FY'14E
Net Income	205,839	207,601	68,507	109,111	31,132	7,967	216,717	80,465	116,425	25,670	8,080	230,650	241,310
D&A	217,133	233,383	60,811	61,924	61,459	62,383	246,577	60,628	58,245	63,380	63,340	245,590	264,880
Impairments	-	30,270	-	-	-	5,288	5,288	-	-	-	-	-	-
Deferred Income Tax	196,731	117,353	40,042	62,010	18,661	(16,394)	104,319	45,951	60,940	1,000	1,000	108,890	125,960
Cash Provided (Used) by Wrk Cap	55,211	(51,260)	(171,857)	115,417	63,783	30,356	37,699	(186,388)	105,076	33,477	5,000	(42,840)	-
Operating C.F.	674,914	537,347	(2,497)	348,462	175,035	89,600	610,600	656	340,686	123,527	77,420	542,290	632,150
Cap Ex	(542,636)	(622,965)	(154,394)	(156,729)	(186,251)	(235,484)	(732,858)	(190,027)	(199,090)	(200,000)	(200,000)	(789,120)	(800,000)
(Acquisitions) / Divestitures	-	-	-	-	-	128,223	128,223	-	-	141,000	-	141,000	-
Dividends	(124,287)	(124,011)	(31,517)	(31,390)	(31,431)	(31,458)	(125,796)	(31,992)	(32,016)	(32,040)	(32,060)	(128,110)	(132,080)
Free C.F.	7,991	(209,629)	(188,408)	160,343	(42,647)	(49,119)	(119,831)	(221,363)	109,580	32,487	(154,640)	(233,940)	(299,930)
Net Proceeds (Repayment) ST Debt	54,268	83,306	173,905	(222,850)	42,257	360,829	354,141	256,933	(599,074)	(75,000)	150,000	(267,140)	50,000
LT Debt Proceeds	-	394,466	-	-	-	-	-	-	493,793	-	-	493,790	700,000
(Repayment) of LT debt	(131)	(360,131)	(2,303)	(66)	-	(254,665)	(257,034)	-	(131)	-	-	(130.00)	(500,000)
Issued Stock	8,766	7,796	76	88	87	1,355	1,606	(13)	34	-	-	20	-
Repurchased Stock & Eq Awards	(101,641)	(5,299)	(15,655)	(389)	(1,710)	-	(17,754)	(3,124)	-	-	-	(3,120)	-
Net C.F.	(6,184)	(20,585)	(25,543)	(56,032)	4,829	65,242	(11,503)	35,433	(62,424)	(37,513)	360	(64,150)	(29,930)

Selected Financial Statistics	FY'10	FY'11	Q1'12	Q2'12	Q3'12	Q4'12	FY'12	Q1'13	Q2'13	Q3'13E	Q4'13E	FY'13E	FY'14E
Book value	$24.08	$24.90	$25.05	$26.14	$25.88	$25.86	$25.86	$26.55	$27.80	$25.47	$25.13	$25.16	$26.02
Tangible book value	$15.90	$16.73	$16.87	$17.94	$17.75	$17.74	$17.74	$18.43	$19.70	$17.38	$17.04	$17.06	$17.94
Price/book	1.2x	1.3x	1.3x	1.2x	1.4x	1.4x	1.4x	1.3x	1.6x	1.7x	1.7x	1.7x	1.7x
LTD / Total Capital	49.9%	49.5%	49.3%	48.3%	48.4%	45.3%	45.3%	44.7%	49.1%	51.3%	51.6%	51.6%	52.7%
Total Net Debt / Total Capital	49.8%	50.3%	52.5%	49.7%	50.4%	51.1%	51.1%	52.3%	50.8%	52.6%	54.3%	54.3%	55.8%
ROE (DuPont--ROAxFL)	9.5%	9.4%	3.0%	4.7%	1.3%	0.3%	9.4%	3.4%	4.7%	1.1%	0.3%	9.9%	10.3%
Financial Leverage	3.0x	3.2x	3.3x	3.2x	3.1x	3.1x	3.2x	3.2x	3.2x	3.2x	3.3x	3.3x	3.5x
ROA	3.1%	3.0%	0.9%	1.5%	0.4%	0.1%	2.9%	1.0%	1.5%	0.3%	0.1%	3.0%	3.0%

Source: Company reports and Hilliard Lyons Estimates

Analyst Certification

I, Spencer E. Joyce, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

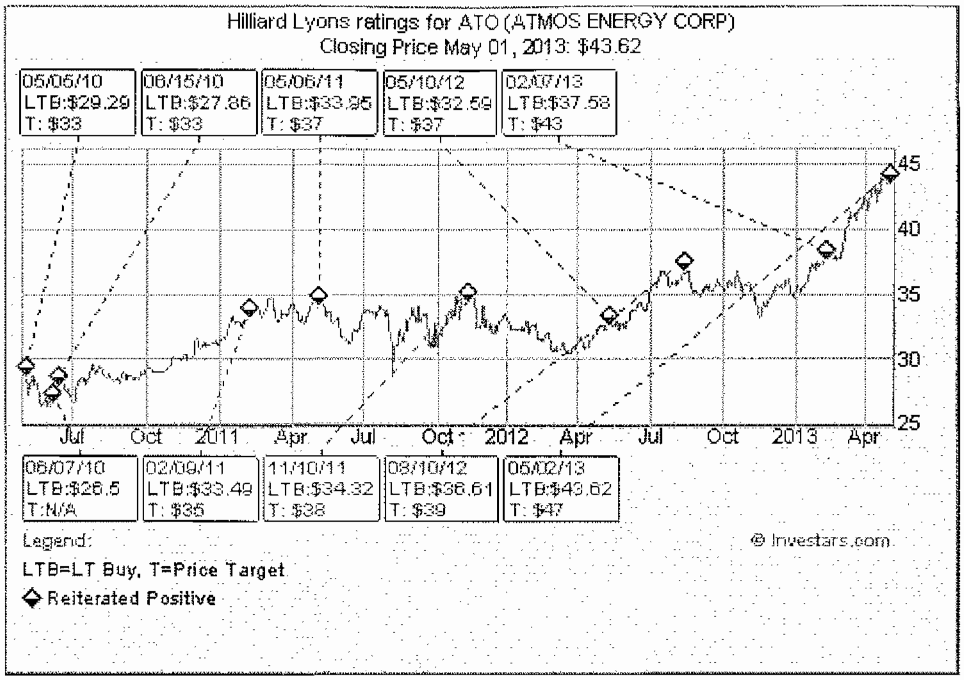
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	56	40%	13%	88%
Hold/Neutral	79	57%	13%	87%
Sell	4	3%	0%	100%

As of 10 April 2013

Other Disclosures

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HILLIARD LYONS

Utilities Monthly

Natural Gas and Water

April 2013

We recommend this report be viewed/printed in color

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To obtain important disclosure information regarding Hilliard Lyons' rating system, valuation methods, risk factors and potential conflicts of interest with respect to the companies covered in this report, please call (800) 444-1854 ext. 8820, send a request via e-mail to RsLib@hilliard.com, or go online to http://hilliard.com/site/market-info/research-disclosures.html. Requests should include the name and date of this report and a list of companies for which the disclosure information is requested.

Note Important Disclosures on page 22
Note Analyst Certification on page 22

Table of Contents

Natural Gas Utilities

PRICE PERFORMANCE

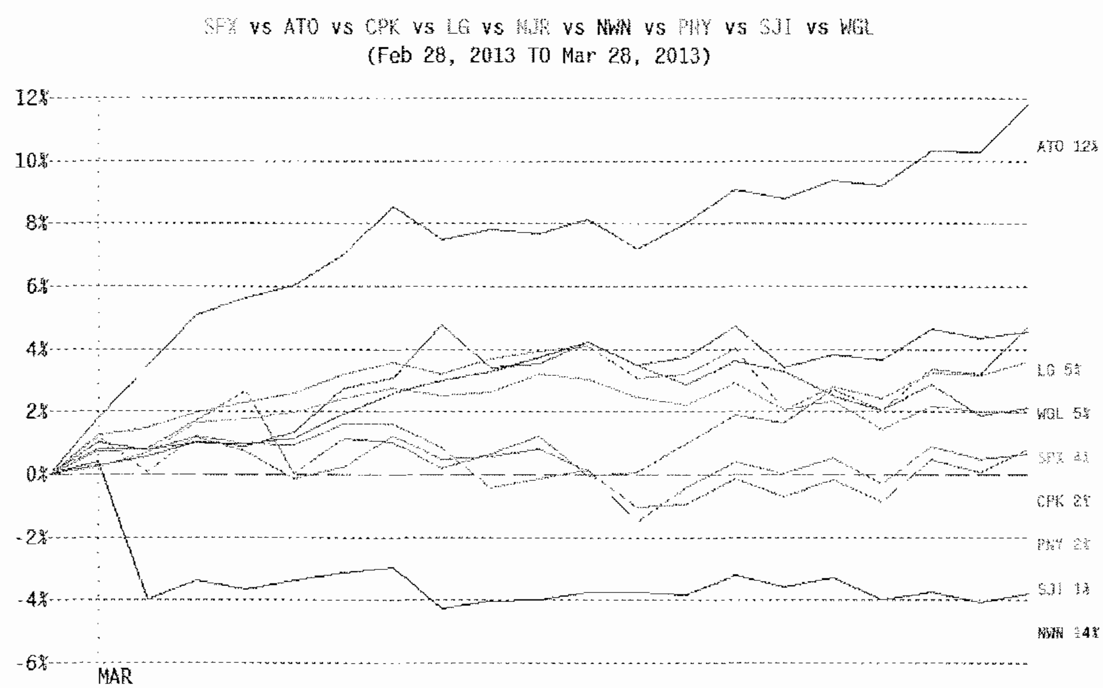
March performance of our covered gas utilities lagged the S&P 500; our companies gained an average of 2.87% during the month versus an S&P advance of 3.60% **(Exhibit 1)**. Only three of our eight names outperformed the large-cap index in February. Atmos Energy (ATO) was our strongest name, advancing 11.84%; Northwest Natural Gas (NWN) fell 3.80% during the month and was our weakest performer for the second consecutive month.

Year-to-date, our covered gas utilities have nearly mirrored the rising broader market, gaining an average of 10.07% versus an S&P 500 gain of 10.03% **(Exhibit 2).**

For the trailing twelve months **(Exhibit 3),** an equal-weighted basket of our coverage group is up roughly 10%, versus a 15% gain posted by the S&P 500. Over the period, only Atmos Energy (ATO) and Chesapeake Utilities (CPK) have outperformed the large cap index; the range of performance spans from +38% (ATO) to -3% (NJR & NWN).

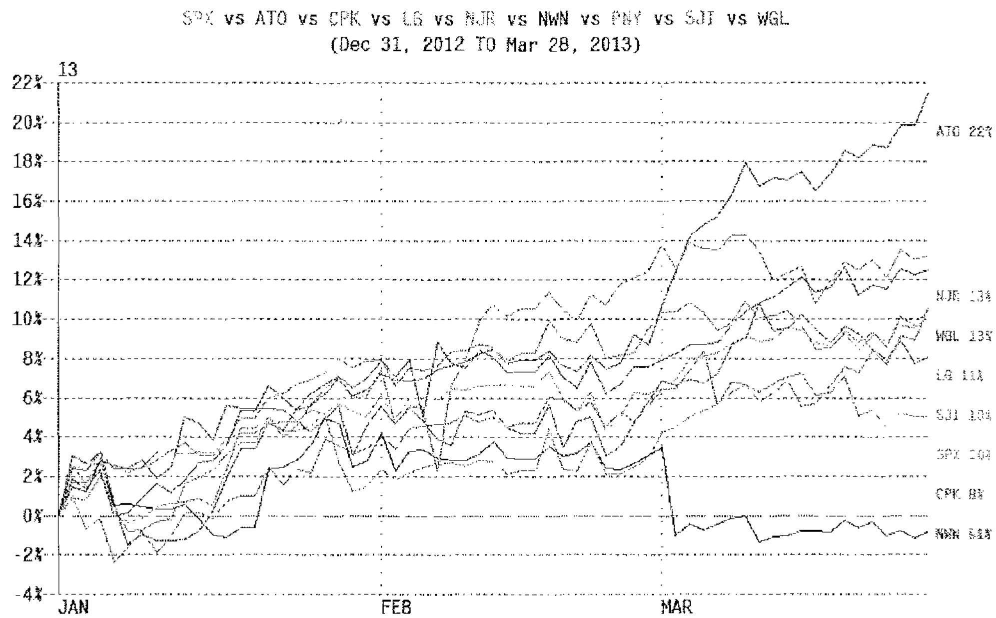
Since our prior monthly, published 3/20, we have not issued any updates on our gas utility coverage space; however, each of our outlooks was updated in early-March in conjunction with earnings season. We currently hold positive ratings on ATO, CPK, PNY and WGL, and assign Neutral ratings to LG, NJR, NWN, and SJI.

Exhibit 1
Hilliard Lyons Covered Gas Utilities Monthly Price Performance vs. S&P 500—Daily Chart



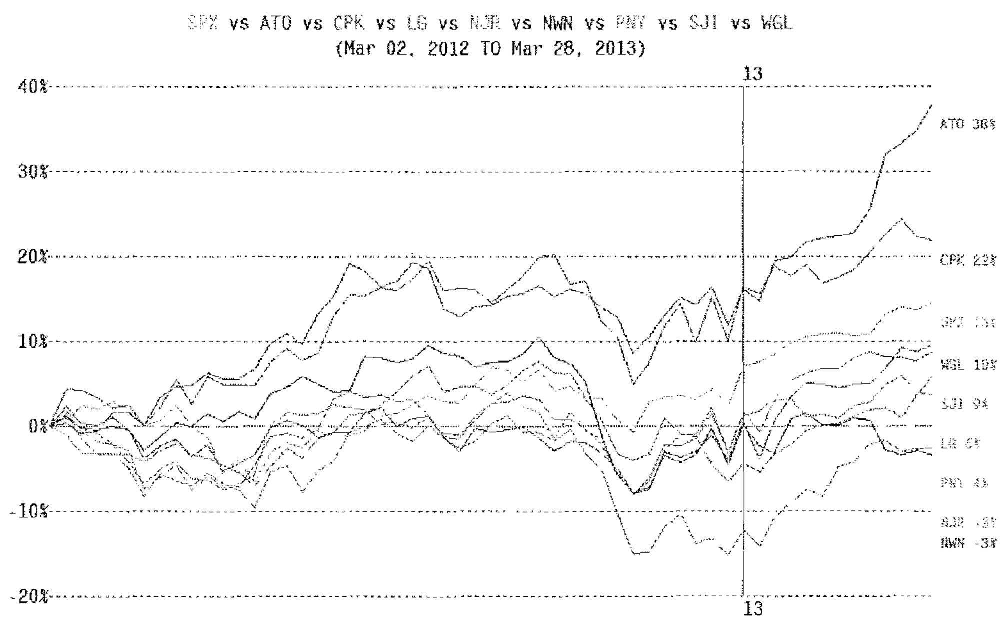
Source: Baseline SPX-S&P 500 Index; ATO-Atmos; CPK-Chesapeake Util; LG-Laclede Group; NJR-New Jersey Resc; NWN-Northwest Natural; PNY-Piedmont Nat Gas; SJI- South Jersey Industries; WGL-WGL Holdings **Note: It is not possible to invest directly in an index**

Exhibit 2
Hilliard Lyons Covered Gas Utilities YTD Price Performance vs. S&P 500—Daily Chart



Source: Baseline SPX-S&P 500 Index; ATO-Atmos; CPK-Chesapeake Util; LG-Laclede Group; NJR-New Jersey Resc; NWN-Northwest Natural; PNY-Piedmont Nat Gas; SJI- South Jersey Industries; WGL-WGL Holdings **Note: It is not possible to invest directly in an index**

Exhibit 3
Hilliard Lyons Covered Gas Utilities One-Year Price Performance vs. S&P 500—Weekly Chart



Source: Baseline SPX-S&P 500 Index; ATO-Atmos; CPK-Chesapeake Util; LG-Laclede Group; NJR-New Jersey Resc; NWN-Northwest Natural; PNY-Piedmont Nat Gas; SJI- South Jersey Industries; WGL-WGL Holdings **Note: It is not possible to invest directly in an index**

COMMENTARY AND OUTLOOK

Performance for the gas utility industry remained respectable through March, with our coverage group on average just edging out the S&P 500 YTD return through the first quarter of 2012. Exhibit 2 shows performance through the end of Q1'12, though we will add that the trend has remained intact in April with six of our eight covered names outperforming thus far during the month. We expect an element of sector rotation after a weak 2012 and clarity on dividend taxation likely contributed to solid performance early in the year, but at this point we believe those themes are exhausted. In our opinion, the continued strength over the past ~4-6 weeks has been a function of inertia (momentum/performance chase) and a lack of alternatives in more cyclical industries as global macro remains a modest concern.

Notably missing from our stock performance conversation is any mention of strengthening in underlying businesses across the gas utility industry. Weather to close Q1 was likely positive on yr/yr basis, and we believe the secular shift of natural gas toward core fuel status remains a strong investable thesis for the group, but our outlook has changed very little over the past few months. Coupled with rising stock prices, we believe average risk/reward in the industry has become less compelling.

With this in mind we are downgrading the industry to an Underweight allocation recommendation (from Marketweight) as we move through April. We expect strength in the group could persist through Q1 earnings season, but believe investors should capitalize on opportunistic exit points to lighten exposures over comings weeks. We expect any sector rotation upside experienced YTD is likely to pressure the group over the summer months, and from a bottom-up perspective, we are finding less compelling valuations and/or risk/reward scenarios across both our positive and neutral-rated securities.

Calendar Q4 earnings season concluded in mid-March, though we expect our companies to release quarterly results again in early-May. Also worth noting, the preeminent gas utility industry event as it relates to the financial community is scheduled for May 5-7. We mention the AGA Financial Forum for several reasons. First, we expect few announcements from our companies over the coming month ahead of the event, and we also expect few moves from analysts ahead of the forum. With this in mind, April may be a good month for investors to trade on 'price-only' concerns for several weeks, perhaps trimming some positions into strength and in line with our Underweight allocation recommendation.

Also in regard to AGA, we encourage investors to stay cognizant of utility holdings throughout the early weeks of May. Opinions issued immediately following earnings reports, which should be mostly completed prior to the conference, could either change or be substantially refined following the forum. Finally, we note that we will be meeting with management from each of our covered companies at AGA, and will have detailed comments from each of our meetings in our May--Utilities Monthly.

Most of our gas utility investment thesis is centered on regulated growth opportunities driven by cost advantages over competing fuels, which we believe will drive increased demand for transmission and distribution service over the long-term. We believe regulated growth opportunities presented by customer conversions, increased industrial usage and more prevalent gas-fired power generation will be sufficient to drive acceptable earnings growth rates. Apart from strictly economic concerns, we are comfortable with natural gas' position as a 'compromise' energy solution; we view the potential for gas to drive energy independence and provide relative environmental benefits as incremental positives for the gas utility industry that add a level or resiliency to the story.

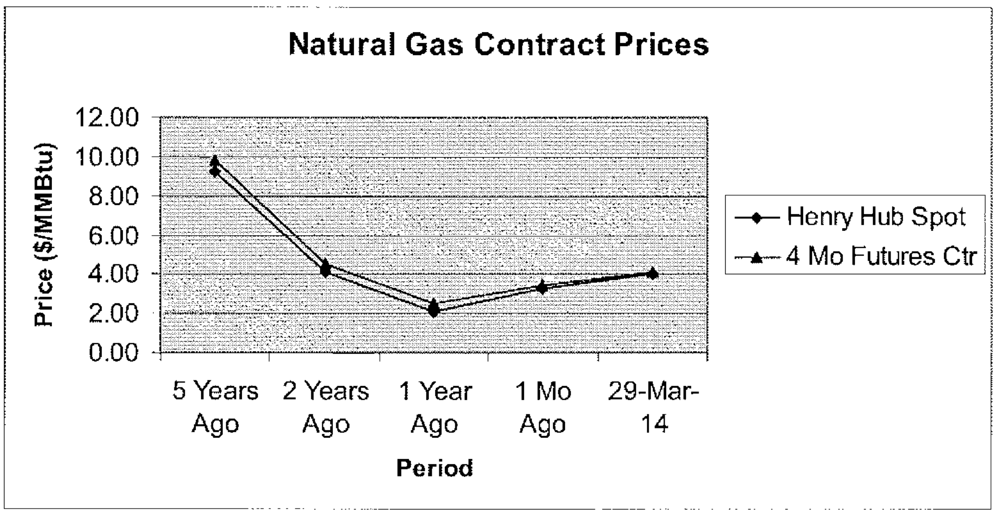
Piedmont Natural Gas has slightly trimmed YTD underperformance relative to the group over the past several weeks; however, we continue to believe that PNY and CPK are the companies most attractive at current stock price levels.

NATURAL GAS PRICES

Reversing a down February, the spot price of natural gas gained ~23% in March to finish at nearly double the price of one year ago. Gas utility profitability is decoupled from the commodity spot price, and we do not believe utilities are appropriate vehicles for investors seeking exposure to commodity price movements; however, we believe low gas prices relative to alternative fuel sources are a secular positive for the industry. Low gas costs promote usage of the commodity as a substitute, thus aiding utilities in expansion efforts. Conversions from heating oil and propane have benefited the space, and we believe the continued move toward gas-fired power generation is an opportunity for the industry.

With gas prices now in a sustained uptrend since bottoming roughly one-year ago, we have heard initial rumblings throughout the financial and energy complexes about becoming overly dependent on natural gas (usually as part of the coal v. gas v. renewable v. nuclear power-gen debate). Despite the rally, we believe gas prices can remain sufficiently low over a long-term horizon due to shale gas reserves such that gas migration toward core fuel status remains an investable thesis.

Exhibit 4
Natural Gas Prices



	5 Years Ago	2 Years Ago	1 Year Ago	1 Mo Ago	29-Mar-14
Henry Hub Spot	9.24	4.12	2.06	3.28	4.05
4 Mo Futures Ctr	9.83	4.50	2.51	3.44	4.09

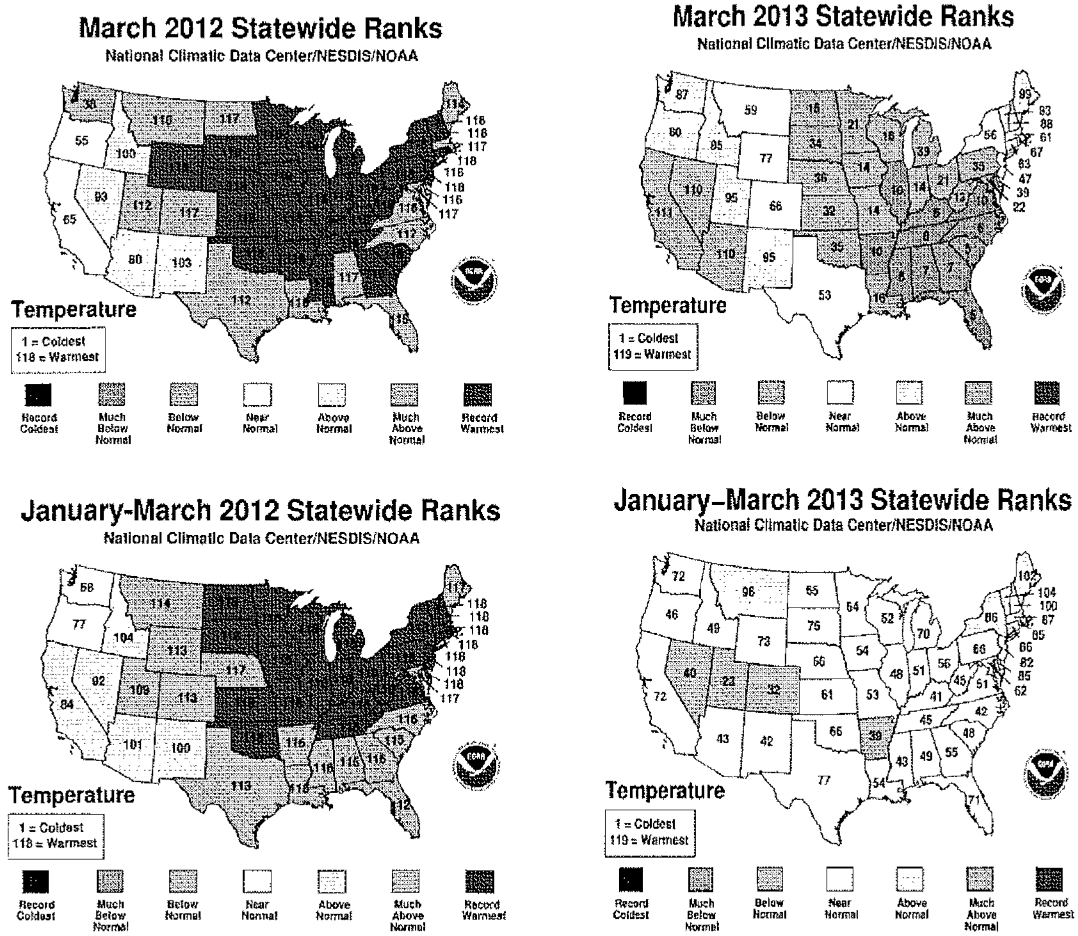
Source: Energy Information Administration

TEMPERATURE DATA

February brought a bit of temperature normalization, but March marked a full-fledged reversal of the warm winter of 2011-2012 conditions. Average temperatures for every state east of the Mississippi River were colder than a year ago during the month, with much of the South registering near-record cold months versus 2012's numerous record highs **(Exhibit 5)**. From a stock perspective, CPK with its propane operations will likely see the largest bottom line impact, though we believe our entire coverage group will likely log a bit of incremental yr/yr benefit from weather in March with the possible exception of Northwest Natural (west coast-based).

With full-Q1 weather data now observable, cooler temperatures prevailed in nearly every state relative to the year-ago quarter. Our enthusiasm however, is tempered somewhat by a Jan '13 that looked relatively similar to Jan '12 (warm) for the states most important to our covered names, so despite a cold March, Q1 temperatures were roughly average. Most utility segments across the industry have been granted weather-risk mitigation by regulators, though non-regulated business lines are typically not protected. Optimization is generally more profitable during periods of higher demand, as are marketing activities.

Exhibit 5
Temperatures by State—Months of Calendar Q1 2012 versus Months of Calendar Q1 2013



Source: National Climatic Data Center; NOAA Satellite and Information Service

RECENT EVENTS -- Hilliard Lyons Coverage Universe (chronological order)

For earnings announcements, quarterly results and rating actions, please consult our most recently published notes. Dividend announcements outside of raises and special items are omitted

Atmos Energy (ATO - $42.29, Long-term Buy, $43 TP) 4/1/13—Atmos announced the completed divestiture of substantially all of its GA-assets. The purchase price of ~$155MM is expected to be used to fund growth opportunities in other jurisdictions.

HILLIARD LYONS NATURAL GAS UTILITY COVERAGE LIST COMPARABLES

Actual // *Estimate*

Company	Ticker	Price 15-Apr-13	Target Price	Rating	Rev TTM ($MM's)	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	EPS FY'12	EPS FY'13E	EPS FY'14E	P / E FY'12	P / E FY'13E	P / E FY'14E	5-Yr Avg P/E	3-Yr Avg EPS Growth	Curr EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
Atmos Energy	ATO	$ 42.25	$ 43	LT Buy	3,371	3,822.0	1.6x	45.0	$2.31	*$2.49*	*$2.57*	18.3x	17.0x	16.4x	14.1x	0%	9.2x	3.3%	58	2.1%	497,928
Chesapeake Utilities	CPK	$ 48.47	$ 56	Buy	393	465.9	1.9x	28.0	$2.99	*$3.39*	*$3.56*	16.2x	14.3x	13.6x	14.4x	4%	8.0x	3.0%	49	1.6%	25,247
The Laclede Group	LG	$ 43.60	--	Neutral	1,022	984.2	1.6x	37.0	$2.79	*$3.12*	*$3.36*	15.6x	14.0x	13.0x	14.1x	9%	8.8x	3.9%	58	7.0%	130,360
New Jersey Resources	NJR	$ 44.91	--	Neutral	2,343	1,877.7	2.2x	38.0	$2.71	*$2.55*	*$2.69*	16.6x	17.6x	16.7x	16.5x	9%	15.3x	3.6%	64	6.3%	150,228
Northwest Natural	NWN	$ 43.97	--	Neutral	743	1,184.5	1.6x	49.0	$2.33	*$2.26*	*$2.39*	18.9x	19.5x	18.4x	17.3x	-6%	9.2x	4.1%	78	5.9%	137,542
Piedmont Natural Gas	PNY	$ 33.18	$ 36	LT Buy	1,167	2,517.6	2.2x	44.0	$1.66	*$1.72*	*$1.79*	20.0x	19.3x	18.5x	18.0x	-2%	13.0x	3.7%	68	4.7%	277,552
South Jersey Industries	SJI	$ 57.43	--	Neutral	707	1,823.1	2.6x	45.0	$3.03	*$3.12*	*$3.20*	18.9x	18.4x	18.0x	17.4x	8%	15.3x	3.1%	56	3.0%	106,501
WGL Holdings	WGL	$ 43.56	$ 45	LT Buy	2,384	2,250.7	1.7x	29.0	$2.68	*$2.48*	*$2.67*	16.2x	17.6x	16.3x	14.9x	5%	8.9x	3.9%	60	2.7%	204,042
					Averages:		1.9x	39.4				17.6x	17.2x	16.4x	15.8x	3.4%	11.0x	3.6%	61	4.2%	

Source: Company reports, Baseline, and Hilliard Lyons estimates

ATO, LG, NJR and WGL (September fiscal year-end); PNY (October fiscal year-end)

NATURAL GAS UTILITY INDUSTRY COMPARABLES

Actual // *Estimate*

Company	Tkr	Price 15-Apr-13	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	Consensus EPS FY'12	Consensus EPS FY'13E	Consensus EPS FY'14E	Consensus P / E FY'12	Consensus P / E FY'13E	Consensus P / E FY'14E	5-Yr Avg P/E	3-Yr Avg EPS Growth	TTM EBITDA/ Share	Current EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
AGL Resources	GAS	$ 42.27	4,982.6	1.5x	49.0	$2.46	*$2.67*	*$2.80*	17.2x	15.8x	15.1x	13.2x	-10%	$9.03	9.1x	4.4%	75	1.9%	492,664
Atmos Energy	ATO	$ 42.25	3,822.0	1.6x	45.0	$2.22	*$2.47*	*$2.63*	19.0x	17.1x	16.1x	14.1x	0%	$7.83	9.2x	3.3%	58	2.1%	497,928
Chesapeake Utilities	CPK	$ 48.47	465.9	1.9x	28.0	$2.98	*$3.28*	*$3.47*	16.3x	14.8x	14.0x	14.4x	4%	$8.22	8.0x	3.0%	49	1.6%	25,247
Delta Natural Gas	DGAS	$ 20.62	141.2	2.1x	45.0	$0.85	*$0.89*	*$1.04*	24.3x	23.2x	19.8x	12.5x	-17%	$3.01	9.5x	3.5%	64	1.6%	10,922
Gas Natural	EGAS	$ 10.05	84.3	1.1x	35.0	$0.58	*$0.67*	*$0.70*	17.3x	15.0x	14.4x	13.0x	-32%	$1.81	9.4x	5.4%	93	0.1%	17,901
Laclede Group	LG	$ 43.60	984.2	1.6x	37.0	$2.78	*$2.89*	*$3.02*	15.7x	15.1x	14.4x	14.1x	9%	$6.97	8.8x	3.9%	58	7.0%	130,360
National Fuel Gas	NFG	$ 57.29	4,783.1	2.4x	36.0	$2.59	*$2.90*	*$2.93*	22.1x	19.8x	19.6x	18.1x	0%	$8.79	8.7x	2.5%	55	2.1%	419,151
New Jersey Resources	NJR	$ 44.91	1,877.7	2.2x	38.0	$2.70	*$2.61*	*$2.72*	16.6x	17.2x	16.5x	16.5x	9%	$4.38	15.3x	3.6%	64	6.3%	150,228
Northwest Natural Gas	NWN	$ 43.97	1,184.5	1.6x	49.0	$2.32	*$2.29*	*$2.42*	19.0x	19.2x	18.2x	17.3x	-6%	$8.34	9.2x	4.1%	78	5.9%	137,542
ONEOK	OKE	$ 48.53	9,945.5	4.8x	75.0	$1.69	*$1.81*	*$2.25*	28.7x	26.8x	21.6x	18.3x	3%	$5.85	13.9x	3.0%	79	2.5%	1,205,242
Piedmont Natural Gas	PNY	$ 33.18	2,517.6	2.2x	44.0	$1.66	*$1.73*	*$1.81*	20.0x	19.2x	18.3x	18.0x	-2%	$4.16	13.0x	3.7%	68	4.7%	277,552
South Jersey Industries	SJI	$ 57.43	1,823.1	2.6x	45.0	$3.04	*$3.26*	*$3.52*	18.9x	17.6x	16.3x	17.4x	8%	$5.75	15.3x	3.1%	56	3.0%	106,501
Southwest Gas	SWX	$ 47.71	2,208.7	1.7x	49.0	$2.87	*$2.87*	*$2.98*	16.6x	16.6x	16.0x	15.8x	8%	$10.79	7.0x	2.8%	42	1.6%	161,089
UGI Corp.	UGI	$ 39.11	4,426.4	2.0x	59.0	$1.83	*$2.48*	*$2.78*	21.4x	15.8x	14.1x	13.3x	-10%	$8.04	8.6x	2.8%	55	2.0%	528,775
WGL	WGL	$ 43.56	2,250.7	1.7x	29.0	$2.69	*$2.45*	*$2.61*	16.2x	17.8x	16.7x	14.9x	5%	$6.99	8.9x	3.9%	60	2.7%	204,042
Averages:				2.1x	44.2				19.3x	18.1x	16.7x	15.4x	-2.1%		10.3x	3.5%	63.6	3.0%	

Source: Company reports and Baseline

Water Utilities

PRICE PERFORMANCE

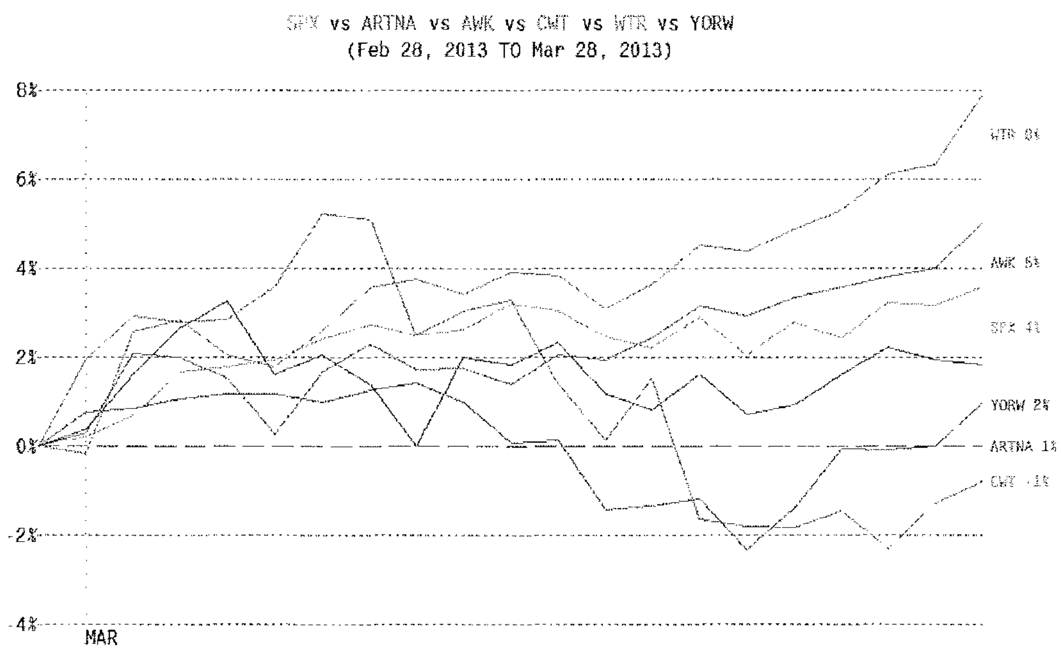
During March, stock prices of our covered water utilities gained an average of 3.00%, which slightly lagged the advance of 3.60% posted by the S&P 500 **(Exhibit 6)**. Aqua America (WTR) was our top monthly gainer for the second consecutive month, rising 7.93%; The California Water Service Group (CWT) fell 0.80% in March after a strong start to 2013 on news of a secondary equity offering.

Our average water utility gained 10.18% through the first quarter of the year, which was slightly above the 10.03% year-to-date return posted by the S&P 500 index **(Exhibit 7)**. While average performance thus far has been in line with the broader market, we note that substantial bifurcation in performance exists within our 5-company coverage group after just three months of the year.

On a trailing 12-month basis, our covered water utilities on average have solidly outperformed the broader market. The group gained an average of ~21% over the period, while the S&P 500 gained ~15% **(Exhibit 8).** The range of performance spans from +43% (WTR) to +10% (CWT).

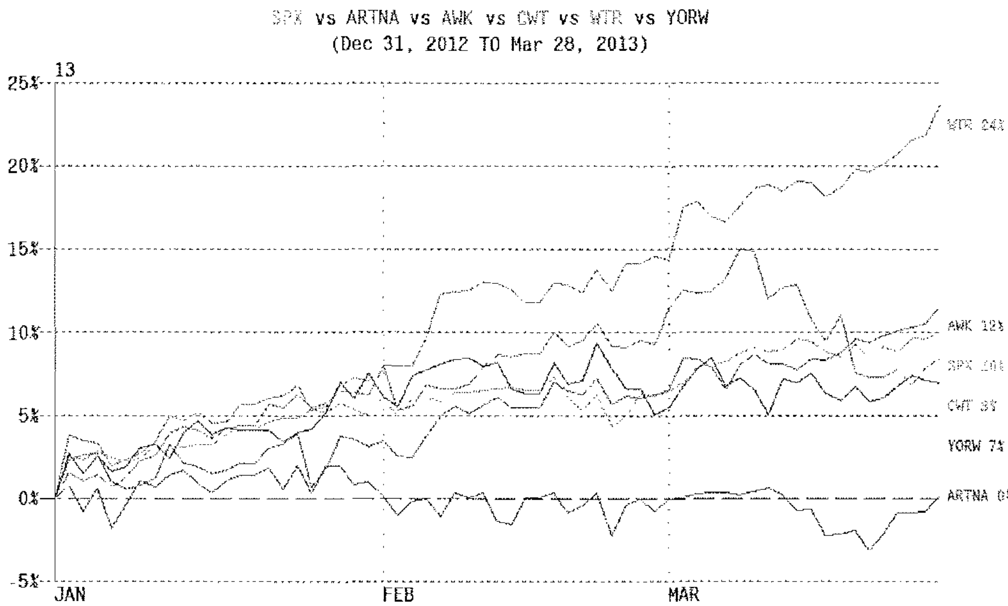
Since our prior monthly, we have issued only one update note for our water utility coverage group. On March 22, we lowered estimates for CWT to reflect a secondary equity offering and weak guidance, but left our Neutral rating intact. We are currently recommending only AWK and WTR for purchase; we hold Neutral ratings on ARTNA, CWT and YORW.

Exhibit 6
Hilliard Lyons Covered Water Utilities Monthly Price Performance vs. S&P 500—Daily Chart



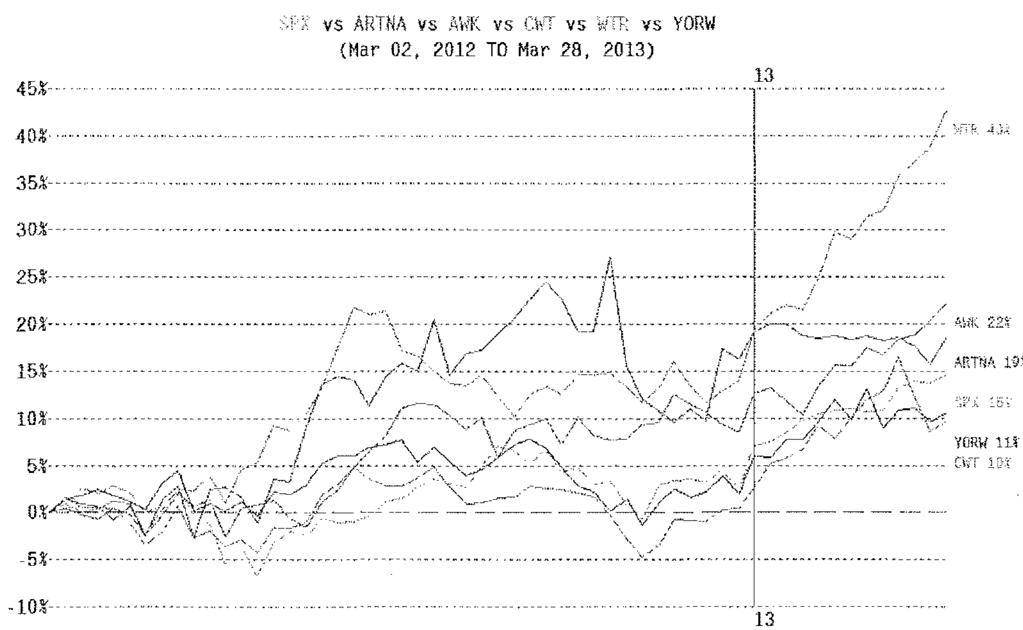
Source: Baseline SPX-S&P 500 Index; ARTNA-Artesian Resources; AWK-American Water Works; CWT-California Water Service Group; WTR-Aqua America; YORW-The York Water Company **Note: It is not possible to invest directly in an index**

Exhibit 7
Hilliard Lyons Covered Water Utilities YTD Price Performance vs. S&P 500—Daily Chart



Source: Baseline SPX-S&P 500 Index; ARTNA-Artesian Resources; AWK-American Water Works; CWT-California Water Service Group; WTR-Aqua America; YORW-The York Water Company **Note: It is not possible to invest directly in an index**

Exhibit 8
Hilliard Lyons Covered Water Utilities One-Year Price Performance vs. S&P 500—Weekly Chart



Source: Baseline SPX-S&P 500 Index; ARTNA-Artesian Resources; AWK-American Water Works; CWT-California Water Service Group; WTR-Aqua America; YORW-The York Water Company **Note: It is not possible to invest directly in an index**

COMMENTARY AND OUTLOOK

A secondary offering from CWT weighed on performance of our coverage group in March, but on average, we are impressed with price performance of our companies during what has been an uneventful late-March/early-April for our names. March 31 marked quarter-end for each of our companies, and despite working through Q4 earnings releases just ~1 month ago, Q1 earnings season will be upon us once again in early-May. The first quarter (January-March) is typically the least weather sensitive period for the industry, and we expect most conversations to center on company-specific items and outlooks.

Turning our attention toward the now in-progress Q2/Q3 summer period, we remind investors of the highly publicized drought that impacted the US in 2012. Among our covered names, we believe American Water Works and Aqua America were most affected, with the companies logging Q2'12 EPS benefit from weather of approximately \$0.06-\$0.09 and \$0.01-\$0.02, respectively. We also believe weather boosted EPS for AWK in Q3'12 as well, but to a lesser extent. Difficult comps this year are not a major concern given our long-term bull case for the water utilities; however, should an exceptionally wet summer materialize, we believe it could give pause to the industry rally that has been generally intact since November of last year.

As noted earlier, news flow in the industry has been slow over the past few weeks (a reversal from most of the first quarter), though we do identify a few items worth mentioning. On March 28, WTR updated investors on the progress of its Florida asset sales. To-date, roughly 2/3 of Aqua's systems have been divested in the Sunshine State, and the remaining ~1/3 is expected to be shed by the end of Q3. This is a delay relative to the initial goal of full-divestiture by the end of March, but in total we are okay with sale prices thus far and do not believe the delay poses much risk from a capital allocation and/or cash flow perspective. Additionally, at a somewhat rare analyst event for AWK, we met new CFO Susan Story at a special reception scheduled to introduce her to members of the financial community. Though just a few weeks on the job, we believe Ms. Story is meshing well with in-place AWK management and will prove to be a good long-term hire.

To briefly revisit our long-term investment thesis for the water utility industry, we believe infrastructure investment opportunity, which leads to incremental revenue generation via higher customer rates, remains a major investable theme. Based on qualitative conversations, we believe the regulatory climate remains sufficiently positive on a macro basis to support earnings growth, and we are encouraged by the proliferation of surcharges. Additionally, we believe acquisitions can continue to bolster growth for our covered names, and the robust activity thus far in 2013 is encouraging, in our view. Tuck-ins can both increase customer counts/fixed charges and provide additional capital investment opportunities. Furthermore, we are becoming incrementally more bullish on non-regulated opportunities, which include service line protection programs and water supply for oil and gas drilling.

We are maintaining our market-weight allocation recommendation for the water utility industry as we move through March. We are comfortable with average valuation levels, but await a more compelling entry point for much of the industry. We are inclined to hold exposures stable until identifying a more compelling industry-wide catalyst. For new positions, our favorite name at current prices is American Water Works. Difficult comps in 2013 have the potential to weigh on conversations throughout the summer; however, we believe multiple expansion along earnings and dividend growth can contribute to total return in AWK from current levels.

RECENT EVENTS-Hilliard Lyons Coverage Universe

For earnings announcements, quarterly results and rating actions, please consult our most recently published notes. Dividend announcements outside of raises omitted

American Water Works (AWK - $41.56, Buy, $45 TP) 4/8/13—American Water Works hosted an event with financial analysts to introduce their new CFO, Susan Story. Ms. Story joined the company on April 1 with over 30 years of utility experience, most recently as an executive vice president at Southern Company (SO--$47.36).

Aqua America, Inc. (WTR - $32.39, Buy, $33 TP) 3/28/13— Aqua issued a press release updating the progress of its Florida asset sales. In three separate transactions closed to-date, WTR has divested ~65% of its customers in Florida for a combined sale price of ~$52.9MM. The company expects to close on the sale of its remaining systems during the second or third quarter.

American Water Works (AWK - $41.56, Buy, $45 TP) 3/25/13—American Water Works' President and CEO Jeff Sturba appeared on CNBC's Mad Money w/ Jim Cramer. The two parties discussed AWK's 7-10% earnings growth target, the core regulated infrastructure-based segment, several complimentary non-regulated business lines, and how AWK fits into the municipal-dominated landscape of water and wastewater service.

California Water Service Group (CWT - $19.41, Neutral) 3/20/13—Company priced its previously-announced 5MM share (with underwriter option for an additional 750k) equity secondary at $19.25/share.

American Water Works (AWK - $41.56, Buy, $45 TP) 3/13/13—American Water Works announced two tuck-in acquisitions in Northeast PA. For a combined purchase price of ~$1.65MM, AWK acquired separate systems serving ~1,200 and ~500 residents, which are both located in close proximity to American's existing assets in the area. The company has plans to make capital investment into the acquired assets.

York Water Company (YORW - $18.19, Neutral) 3/12/13—York announced a 1.2MM share repurchase authorization in conjunction with releasing Q4'12 results. This represents roughly 9% of shares outstanding as of year-end.

PRECIPITATION DATA

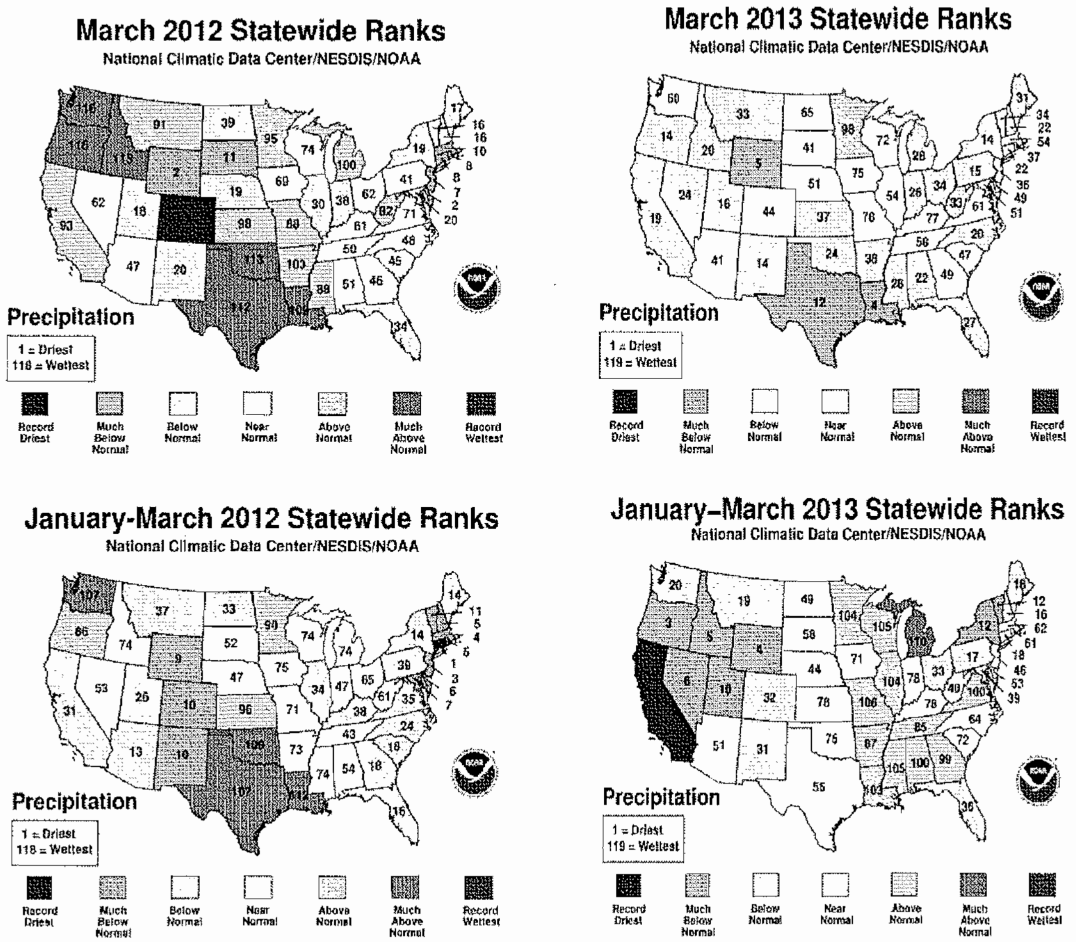
Continuing a trend from February, Texas appears to have shown the steepest decline in yr/yr precipitation in March among our important territories **(Exhibit 9).** Absent a couple of outliers, the balance of our covered states appeared to receive precipitation similar to one year ago.

Overall, as we look at full-Q1 (January-March) data, we are generally pleased to see precipitation throughout the Midwest and most of the South from the perspective of combating longer term drought conditions that can have hydrological and ecological impacts on an area. Typically we prefer lesser precipitation as it bolsters consumption and revenue for our utilities; however, winter consumption (Q1 especially) is usually less sensitive to weather as outdoor activities are naturally curtailed. Furthermore, we remind investors that MO was one of the hardest hit states by the drought of 2012.

Current drought conditions **(Exhibit 10)** and the forward drought outlook **(Exhibit 11)** both improved noticeably over the past ~1 month. As we sit early in the second quarter, we believe our water utilities are in great shape to avoid usage restrictions through at least Q2; with average spring rainfall, we believe they should be well-positioned for Q3 as well. Most encouraging over the past several months, in our view, is the relief of drought conditions in Missouri and Illinois, while on the negative side, conditions remain mixed in Texas and abnormally dry conditions have recently cropped up in Pennsylvania. Drought conditions persist throughout much of the US west of the Mississippi River, but these states (with the exception of Texas) hold lesser importance for our investment purposes.

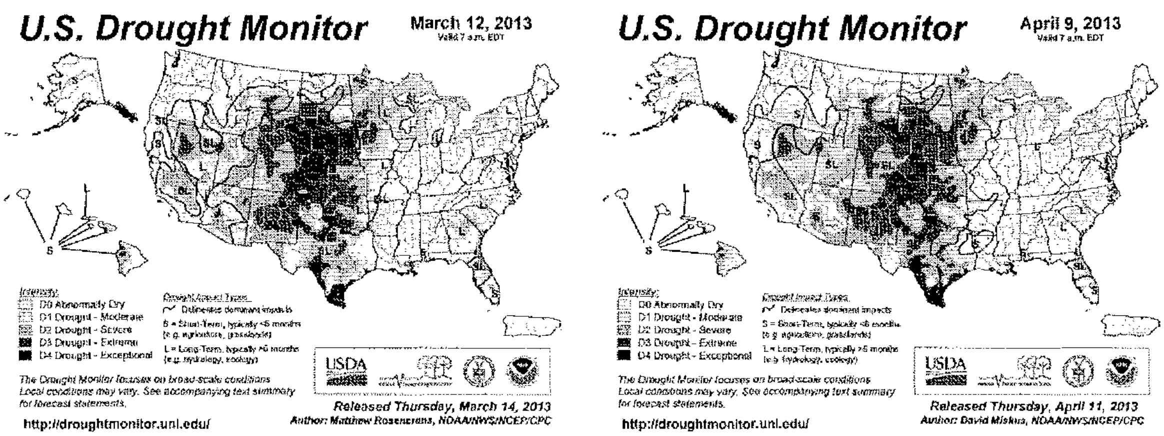
Our granular totals **(Charts, pages 15-17)** include each month of Q1, the recently-completed quarter for which our companies will report results in the late-April thru early-May timeframe. We expect discussion of our tables to take on greater important with our May--Utilities Monthly as we digest the first comparisons with the drought impacted Q2'12.

Exhibit 9
Precipitation by State—Months of Q1'12 versus Months of Q1'13



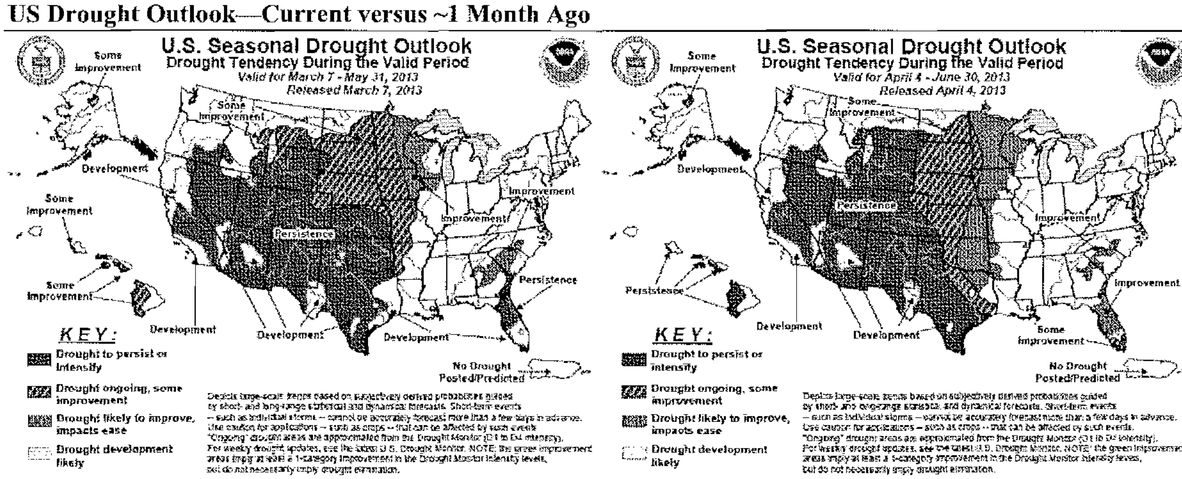
Source: National Climatic Data Center

Exhibit 10
US Drought Conditions—Current versus ~1 Month Ago



Source: National Climatic Data Center

Exhibit 11
US Drought Outlook—Current versus ~1 Month Ago



Source: National Weather Service—Climate Prediction Center

RAW PRECIPITATION TOTALS (SELECT LOCATIONS)

January (month #1 of Q1) 2011-2013

***Note:** Data is color coded by company affected: AWK, WTR, AWK & WTR, ARTNA, YORW. A date in the 'Days of Precip' column means data is not yet available; inches of snow are counted on a 1:1 basis and may skew yr/yr comps. *Data from NOAA Satellite and Information Service.*

Company	State	City	Station	Jan '13 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	9	3.65	7	41.8/26.1	2	0	0	1.46	0.00	1.46
AWK	PA	McKees (Pitbgh)	McKeesport	16	9.97	9	40.2/23.8	3	2	2	5.68	0.40	6.08
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	8	3.49	4	44.4/27.2	0	2	0	0.00	1.20	1.20
AWK	IN	Indianapolis	Indy SE Side	11	7.56	8	37.3/19.9	2	1	1	1.03	2.44	3.47
AWK	WV	Charleston	WSFO	15	7.00	14	44.2/25.6	2	0	0	1.49	0.00	1.49
AWK/WTR	PA	Philadelphia	Philly Frank Inst	11	6.37	5	42.5/31.0	2	1	0	2.59	0.07	2.66
AWK/WTR	PA	Williamsport	Williamsport 2	11	9.66	8	37.8/22.7	0	0	0	0.00	0.00	0.00
WTR	OH	Cleveland	Chippewa Lake	13	7.13	11	34.8/19.0	2	1	1	3.69	0.03	3.72
WTR	NC	Charlotte	Concord	10	4.84	5	55.5/31.2	1	1	0	0.12	0.02	0.14
WTR	NC	Raleigh	Raleigh St Univ	8	3.07	4	54.5/35.6	0	0	0	0.00	0.00	0.00
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	7	4.23	3	58.5/38.6	1	0	0	0.03	0.00	0.03
WTR	TX	Houston	NWSO	12	5.37	10	64.1/45.1	2	1	1	0.80	0.55	1.35
WTR	IL	Kankakee	Kkee--WW Metro	10	3.92	6	35.7/17.8	0	1	0	0.00	0.60	0.60
WTR	FL	Ocala	Ocala	5	0.34	3	76.1/51.8	1	1	1	0.09	0.02	0.11
ARTNA	DE	Newark	Wilmington Port	11	5.11	6	41.0/28.1	0	2	0	0.00	0.98	0.98
ARTNA	DE	New Castle Co	Bear 2	4/12/2013									0.00
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	16	4.73	13	48.8/30.7	2	2	1	1.00	0.03	1.03
YORW	PA	York	York Haven	13	5.32	9	n/a	2	1	1	0.85	0.03	0.88

Company	State	City	Station	Jan '12 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	12	6.66	10	44.5/24.9	3	1	1	3.10	0.98	4.08
AWK	PA	McKees (Pitbgh)	McKeesport	15	5.93	14	41.8/22.3	3	1	1	0.98	1.65	2.63
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	9	5.46	6	46.8/28.3	1	0	0	0.10	0.00	0.10
AWK	IN	Indianapolis	Indy SE Side	13	4.99	12	39.4/22.7	3	0	0	0.34	0.00	0.34
AWK	WV	Charleston	WSFO	18	7.60	18	47.1/25.7	3	2	2	1.18	0.11	1.29
AWK/WTR	PA	Philadelphia	Philly Frank Inst	8	4.58	6	45.7/30.1	0	0	0	0.00	0.00	0.00
AWK/WTR	PA	Williamsport	Williamsport 2	15	9.87	14	40.2/23.2	2	3	2	4.59	1.06	5.65
WTR	OH	Cleveland	Chippewa Lake	17	19.13	17	36.0/20.5	3	1	1	6.86	0.02	6.88
WTR	NC	Charlotte	Concord	10	2.58	8	57.2/30.7	1	1	1	0.45	0.24	0.69
WTR	NC	Raleigh	Raleigh St Univ	10	2.52	6	56.8/34.9	2	1	1	0.81	0.17	0.98
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	6	6.01	6	61.6/38.8	0	1	0	0.00	0.05	0.05
WTR	TX	Houston	NWSO	9	6.33	4	68.7/48.1	1	2	0	0.02	0.19	0.21
WTR	IL	Kankakee	Kkee--WW Metro	9	12.73	5	38.6/20.6	2	0	0	6.06	0.00	6.06
WTR	FL	Ocala	Ocala	6	0.77	4	73.4/42.7	0	1	0	0.00	0.01	0.01
ARTNA	DE	Newark	Wilmington Port	11	3.81	7	43.8/27.1	1	1	0	1.00	0.05	1.05
ARTNA	DE	New Castle Co	Bear 2	11	5.34	7	46.4/27.4	1	1	0	2.88	0.02	2.90
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N		data not available								
YORW	PA	York	York Haven	9	5.78	4	n/a	1	0	0	3.25	0.00	3.25

Company	State	City	Station	Jan '11 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	13	34.91	11	36.0/17.9	2	3	2	0.67	1.48	2.15
AWK	PA	McKees (Pitbgh)	McKeesport	15	7.81	15	32.2/16.7	4	1	1	0.29	0.47	0.76
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	10	11.93	7	36.2/21.8	1	0	0	0.19	0.00	0.19
AWK	IN	Indy	Indy SE Side	9	13.74	6	29.2/15.2	2	0	0	2.44	0.00	2.44
AWK/WTR	PA	Philadelphia	Philly Frank Inst	12	27.00	9	36.1/25.5	2	2	1	1.05	0.14	1.19
AWK/WTR	PA	Williamsport	Williamsport 2	12	14.36	10	32.0/17.4	2	1	0	2.75	0.01	2.76
WTR	OH	Cleveland	Chippewa Lake	16	16.30	14	28.3/13.8	3	3	2	1.32	1.18	2.50
WTR	NC	Charlotte	Concord	7	5.54	4	48.1/26.0	0	1	0	0.00	0.40	0.40
WTR	NC	Raleigh	Raleigh St Univ	7	2.17	6	47.5/28.7	0	1	0	0.00	0.22	0.22
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	5	1.74	2	52.9/32.6	1	1	1	0.04	0.16	0.20
WTR	TX	Houston	NWSO	12	3.28	9	60.1/41.3	1	3	1	0.01	1.59	1.60
WTR	IL	Kankakee	Kkee--WW Metro	13	8.28	11	28.5/13.6	3	1	1	1.73	0.23	1.96
WTR	FL	Ocala	Ocala	8	6.11	8	68.4/42.7	1	0	0	0.03	0.00	0.03
ARTNA	DE	Newark	Wilmington Port	11	30.32	9	33.3/22.2	1	1	0	2.75	0.13	2.88
ARTNA	DE	New Castle Co	Bear 2	12	21.05	10	36.2/21.0	1	1	0	0.54	0.12	0.66
~ARTNA	MD	Salsbury (~S. DE)	Salsbury	11	5.96	9	41.1/25.5	1	1	0	0.22	0.30	0.52
YORW	PA	York	York Haven	9	16.45	4	n/a	0	2	0	0.00	1.38	1.38

February (month #2 of Q1) 2011-2013

***Note:** Data is color coded by company affected: AWK, WTR, AWK & WTR, ARTNA, YORW. A date in the 'Days of Precip' column means data is not yet available; inches of snow are counted on a 1:1 basis and may skew yr/yr comps. *Data from NOAA Satellite and Information Service.*

Company	State	City	Station	Feb '13 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Full Wkends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	13	12.18	8	40.5/23.7	3	2	1	9.37	0.42	9.79
AWK	PA	McKees (Pitbgh)	McKeesport	17	8.41	13	38.4/20.2	3	2	1	1.09	2.95	4.04
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	8	8.87	3	46.2/28.0	0	2	0	0.00	3.37	3.37
AWK	IN	Indianapolis	Indy SE Side	8	3.33	3	36.3/20.4	1	0	0	1.36	0.00	1.36
AWK	WV	Charleston	WSFO	17	9.96	13	44.1/22.6	3	2	1	0.53	3.90	4.43
AWK/WTR	PA	Philadelphia	Philly Frank Inst	11	3.06	6	41.9/29.4	3	2	1	0.82	0.63	1.45
AWK/WTR	PA	Williamsport	Williamsport 2	13	6.25	9	36.7/23.3	2	1	1	0.13	0.22	0.35
WTR	OH	Cleveland	Chippewa Lake	17	9.80	17	31.9/17.9	3	2	1	0.17	6.20	6.37
WTR	NC	Charlotte	Concord	12	4.59	9	53.4/28.2	2	2	2	0.53	1.28	1.81
WTR	NC	Raleigh	Raleigh St Univ	10	4.33	7	53.4/32.5	0	2	0	0.00	1.22	1.22
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	7	1.72	3	62.1/40.4	0	1	0	0.00	1.05	1.05
WTR	TX	Houston	NWSO	10	2.03	8	68.2/48.7	0	2	0	0.00	0.11	0.11
WTR	IL	Kankakee	Kkee--WW Metro	11	7.98	6	34.5/21.2	0	0	0	0.00	0.00	0.00
WTR	FL	Ocala	Ocala	9	1.61	8	75.0/48.1	0	0	0	0.00	0.00	0.00
ARTNA	DE	Newark	Wilmington Port	9	1.84	3	39.3/26.6	2	0	0	0.13	0.00	0.13
ARTNA	DE	New Castle Co	Bear 2	4/12/2013									
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	18	4.60	16	50.0/29.9	3	2	2	0.51	0.60	1.11
YORW	PA	York	York Haven	11	3.50	4	n/a	3	2	1	0.70	0.46	1.16

Company	State	City	Station	Feb '12 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Full Wkends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	9	1.72	4	49/27.8	2	2	1	0.71	0.03	0.74
AWK	PA	McKees (Pitbgh)	McKeesport	14	1.19	9	44.7/26.9	2	2	1	0.11	0.26	0.37
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	9	2.56	4	49.5/32.8	1	1	1	1.04	0.06	1.10
AWK	IN	Indianapolis	Indy SE Side	10	2.20	4	42.8/25.7	2	1	1	0.13	0.07	0.20
AWK	WV	Charleston	WSFO	15	5.21	11	48.6/27.8	2	2	1	2.28	0.86	3.14
AWK/WTR	PA	Philadelphia	Philly Frank Inst	6	1.13	4	48.5/34.7	2	1	1	0.32	0.10	0.42
AWK/WTR	PA	Williamsport	Williamsport 2	10	5.89	7	43.6/26.8	2	0	0	2.69	0.00	2.69
WTR	OH	Cleveland	Chippewa Lake	16	4.37	13	39.2/23.9	3	3	3	2.14	1.22	3.36
WTR	NC	Charlotte	Concord	7	2.06	0	59.8/31.9	1	1	0	0.18	0.98	1.16
WTR	NC	Raleigh	Raleigh St Univ	5	2.81	0	58/37.2	1	1	0	0.22	0.97	1.19
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	9	2.70	8	61/42.5	1	1	0	1.67	0.43	2.10
WTR	TX	Houston	NWSO	16	5.74	13	66.2/51.1	3	2	1	3.53	0.19	3.72
WTR	IL	Kankakee	Kkee--WW Metro	9	3.44	2	40.7/24.8	1	0	0	0.74	0.00	0.74
WTR	FL	Ocala	Ocala	11	4.82	9	76.7/53.2	2	2	1	0.32	0.48	0.80
ARTNA	DE	Newark	Wilmington Port	7	2.60	0	47.2/31.2	2	0	0	0.65	0.00	0.65
ARTNA	DE	New Castle Co	Bear 2	7	4.18	2	49.0/29.6	2	0	0	2.38	0.00	2.38
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	19	5.84	18	52.8/33.6	4	2	2	0.39	0.99	1.38
YORW	PA	York	York Haven	7	2.39	4	n/a	2	1	1	0.45	0.03	0.48

Company	State	City	Station	Feb '11 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Full Wkends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	9	4.68	5	44.4/22.1	1	1	0	0.59	0.26	0.85
AWK	PA	McKees (Pitbgh)	McKeesport	11	9.37	8	38.4/19.6	1	2	0	0.08	0.06	0.14
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	7	9.70	3	47.4/30.4	1	0	0	4.43	0.00	4.43
AWK	IN	Indy	Indy SE Side	10	11.26	10	38.6/22.9	1	2	1	1.08	3.13	4.21
AWK/WTR	PA	Philadelphia	Philly Frank Inst	9	6.65	6	45.2/30.2	2	1	1	0.31	0.16	0.47
AWK/WTR	PA	Williamsport	Williamsport 2	10	15.76	6	40.3/20.1	1	1	0	0.20	0.10	0.30
WTR	OH	Cleveland	Chippewa Lake	12	24.49	8	34.9/17.4	2	1	0	2.16	2.21	4.37
WTR	NC	Charlotte	Concord	5	2.28	2	59.7/33.8	1	0	0	1.60	0.00	1.60
WTR	NC	Raleigh	Raleigh St Univ	4	1.41	0	60.3/34.4	0	1	0	0.00	0.94	0.94
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	9	6.92	4	60.8/37.9	0	2	0	0.00	0.13	0.13
WTR	TX	Houston	NWSO	4	1.56	0	64.7/44.0	0	0	0	0.00	0.00	0.00
WTR	IL	Kankakee	Kkee--WW Metro	9	15.45	8	32.5/17.2	0	0	0	0.00	0.00	0.00
WTR	FL	Ocala	Ocala	7	2.81	4	75.6/49.9	2	0	0	0.06	0.00	0.06
ARTNA	DE	Newark	Wilmington Port	9	2.64	5	44.4/27.4	1	1	0	0.25	0.01	0.26
ARTNA	DE	New Castle Co	Bear 2	10	7.83	6	46.5/25.9	1	0	0	0.20	0.00	0.20
~ARTNA	MD	Salsbury (~S. DE)	Salsbury	12	2.91	9	54.8/31.5	2	0	0	0.06	0.00	0.06
YORW	PA	York	York Haven	10	8.53	8	n/a	2	1	1	0.52	0.32	0.84

March (month #3 of Q1) 2011-2013

***Note:** Data is color coded by company affected: AWK, WTR, AWK & WTR, ARTNA, YORW. A date in the 'Days of Precip' column means data is not yet available; inches of snow are counted on a 1:1 basis and may skew yr/yr comps. *Data from NOAA Satellite and Information Service.*

Company	State	City	Station	Mar '13 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	4/12/2013									
AWK	PA	McKees (Pitbgh)	McKeesport	16	8.48	14	43.6/27.3	2	1	1	0.39	0.53	0.92
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	4/12/2013									
AWK	IN	Indianapolis	Indy SE Side	9	12.42	7	41.5/25.1	1	0	0	0.02	0.00	0.02
AWK	WV	Charleston	WSFO	4/12/2013									
AWK/WTR	PA	Philadelphia	Philly Frank Inst	11	4.10	10	48.3/34.5	0	1	0	0.00	0.20	0.20
AWK/WTR	PA	Williamsport	Williamsport 2	4/12/2013									
WTR	OH	Cleveland	Chippewa Lake	11	8.97	8	38.2/23.5	2	1	1	1.22	1.05	2.27
WTR	NC	Charlotte	Concord	7	3.30	4	55.6/30.1	1	2	1	0.03	0.55	0.58
WTR	NC	Raleigh	Raleigh St Univ	4/12/2013									
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	5	1.70	3	67.1/45.2	3	1	1	1.64	0.04	1.68
WTR	TX	Houston	NWSO	4/12/2013									
WTR	IL	Kankakee	Kkee--WW Metro	8	9.28	3	39.8/24.7	0	0	0	0.00	0.00	0.00
WTR	FL	Ocala	Ocala	6	0.81	4	74.5/43.7	1	1	1	0.09	0.24	0.33
ARTNA	DE	Newark	Wilmington Port	4/12/2013									
ARTNA	DE	New Castle Co	Bear 2	4/12/2013									
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	4/12/2013									
YORW	PA	York	York Haven	4/12/2013									

Company	State	City	Station	Mar '12 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	12	2.02	6	59.9/38.6	3	2	1	0.94	0.11	1.05
AWK	PA	McKees (Pitbgh)	McKeesport	15	4.51	12	65.0/37.5	4	1	1	0.62	0.25	0.87
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	10	3.08	7	68.2/48.1	1	1	0	0.64	1.45	2.09
AWK	IN	Indianapolis	Indy SE Side	12	4.01	10	65.6/43.0	3	1	0	2.26	0.21	2.47
AWK	WV	Charleston	WSFO	13	7.53	7	68.3/41.2	3	2	1	1.80	0.36	2.16
AWK/WTR	PA	Philadelphia	Philly Frank Inst	6	2.07	0	60.9/42.8	2	1	0	0.70	0.12	0.82
AWK/WTR	PA	Williamsport	Williamsport 2	12	1.47	8	61.7/36.9	3	1	1	0.39	0.11	0.50
WTR	OH	Cleveland	Chippewa Lake	13	6.64	8	60.0/37.3	3	2	1	1.17	0.12	1.29
WTR	NC	Charlotte	Concord	11	2.60	6	73.5/46.3	4	1	1	2.05	0.08	2.13
WTR	NC	Raleigh	Raleigh St Univ	10	6.19	9	72.4/48.5	3	3	3	1.94	1.11	3.05
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	9	5.52	8	73.97/54.13	2	1	1	1.09	0.22	1.31
WTR	TX	Houston	NWSO	10	5.32	7	77.3/59.8	2	1	1	1.01	0.95	1.96
WTR	IL	Kankakee	Kkee--WW Metro	9	1.90	4	64.9/42.3	1	1	0	0.63	0.13	0.76
WTR	FL	Ocala	Ocala	7	1.99	3	83.1/56.7	0	3	0	0.00	0.94	0.94
ARTNA	DE	Newark	Wilmington Port	8	1.23	5	60.1/40.5	3	1	1	0.66	0.02	0.68
ARTNA	DE	New Castle Co	Bear 2	7	0.79	3	61.5/40.6	3	0	0	0.56	0.00	0.56
~ARTNA	MD	Salisbury(~S.DE)	Salisbury 2N	10	2.03	5	n/a	3	2	2	1.01	0.03	1.04
YORW	PA	York	York Haven	10	2.94	7	n/a	3	1	1	0.38	0.74	1.12

Company	State	City	Station	Mar '11 Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/ Precip. In.
AWK/WTR	NJ	New Brunswick	3 SE	10	7.19	6	51.8/31.5	0	0	0	0.00	0.00	0.00
AWK	PA	McKees (Pitbgh)	McKeesport	14	3.52	11	50.6/29	2	1	1	0.10	0.14	0.24
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	13	7.36	12	54.8/38.7	3	3	3	1.13	1.02	2.15
AWK	IN	Indy	Indy SE Side	12	4.00	9	58.7/31.4	2	1	1	2.50	0.10	2.60
AWK/WTR	PA	Philadelphia	Philly Frank Inst	9	4.57	7	52.9/36.2	0	1	0	0.00	0.20	0.20
AWK/WTR	PA	Williamsport	Williamsport 2	12	19.71	10	46.0/29.1	1	1	1	0.01	7.33	7.34
WTR	OH	Cleveland	Chippewa Lake	13	11.18	10	45.0/25.0	2	1	1	0.93	1.86	2.79
WTR	NC	Charlotte	Concord	9	4.56	6	64.8/40.6	0	2	0	0.00	1.21	1.21
WTR	NC	Raleigh	Raleigh St Univ	10	4.70	8	62.4/41.2	0	2	0	0.00	0.44	0.44
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	1	0.08	0	72.5/49.8	0	0	0	0.00	0.00	0.00
WTR	TX	Houston	NWSO	5	1.96	2	74.7/55.7	1	0	0	0.85	0.00	0.85
WTR	IL	Kankakee	Kkee--WW Metro	8	1.36	7	47.5/29.7	0	0	0	0.00	0.00	0.00
WTR	FL	Ocala	Ocala	8	3.98	4	80.8/52.8	1	0	0	0.05	0.00	0.05
ARTNA	DE	Newark	Wilmington Port	9	4.88	6	49.7/33.4	0	1	0	0.00	1.29	1.29
ARTNA	DE	New Castle Co	Bear 2	10	4.47	8	52.1/32.8	0	1	0	0.00	1.37	1.37
~ARTNA	MD	Salsbury (~S. DE)	Salsbury	13	6.67	9	57.5/36.1	0	2	0	0.00	3.68	3.68
YORW	PA	York	York Haven	13	6.62	10	n/a	1	1	0	0.02	0.19	0.21

HILLIARD LYONS WATER UTILITY COVERAGE LIST COMPARABLES

Actual // *Estimate*

Company	Ticker	Price 15-Apr-13	Target Price	Rating	Revenue TTM ($MM's)	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	EPS FY'12	EPS FY'13E	EPS FY'14E	P / E FY'12	P / E FY'13E	P / E FY'14E	5-Yr Avg P/E	3-Yr Avg EPS Growth	Curr EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
American Water Works	AWK	$ 41.23	$ 45	Buy	2,876.9	7,323.1	1.6x	54.0	$2.11	*$2.24*	*$2.40*	19.6x	18.4x	17.2x	18.7x	22%	9.7x	2.4%	45	0.4%	816,832
Aqua America	WTR	$ 32.20	$ 33	Buy	770.5	4,519.2	3.4x	53.0	$1.32	*$1.42*	*$1.47*	24.3x	22.7x	21.9x	23.6x	10%	15.5x	2.2%	62	2.3%	661,236
Artesian Resources	ARTNA	$ 21.97	--	Neutral	70.6	170.0	1.7x	47.0	$1.13	*$1.17*	*$1.24*	19.4x	18.9x	17.7x	19.4x	2%	9.3x	3.7%	70	1.6%	13,801
California Water Svc Grp	CWT	$ 19.41	--	Neutral	560.0	910.5	1.7x	48.0	$1.01	*$0.82*	*$1.05*	19.1x	23.8x	18.5x	20.3x	-1%	9.8x	3.3%	63	1.6%	465,059
York Water Company	YORW	$ 18.19	--	Neutral	41.4	235.5	2.4x	46.0	$0.72	*$0.78*	*$0.88*	25.1x	23.3x	20.6x	23.6x	2%	12.5x	3.0%	76	1.5%	18,652
					Averages:		2.2x	49.6				21.5x	21.4x	19.2x	21.1x	7.0%	11.4x	2.9%	63	1.5%	

Source: Company reports, Baseline, and Hilliard Lyons estimates

WATER UTILITY INDUSTRY COMPARABLES

Actual // *Estimate*

Company	Ticker	Price 15-Apr-13	Revenue TTM ($MM)	Mkt Cap ($MM)	Price/ Book	LTD / Cap. (%)	Consensus EPS FY'12	Consensus EPS FY'13E	Consensus EPS FY'14E	Consensus P / E FY'12	Consensus P / E FY'13E	Consensus P / E FY'14E	5-Yr Avg P/E	3-Yr Avg EPS Growth	TTM EBITDA Share	Curr EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
American States	AWR	$ 53.88	466.0	1,037.9	2.3x	42.0	$2.82	*$2.74*	*$2.77*	19.1x	19.7x	19.5x	19.3x	20%	$8.12	8.6x	2.6%	48	2.2%	133,391
American Water Works	AWK	$ 41.23	2,876.9	7,323.1	1.6x	54.0	$2.12	*$2.22*	*$2.37*	19.4x	18.6x	17.4x	18.7x	22%	$7.47	9.7x	2.4%	45	0.4%	816,832
Aqua America	WTR	$ 32.20	770.5	4,519.2	3.4x	53.0	$1.09	*$1.38*	*$1.47*	29.5x	23.3x	21.9x	23.6x	10%	$2.85	15.5x	2.2%	62	2.3%	661,236
Artesian Resources	ARTNA	$ 21.97	70.6	170.0	1.7x	47.0	$1.14	*$1.17*	*$1.27*	19.3x	18.8x	17.3x	19.4x	2%	$3.84	9.3x	3.7%	70	1.6%	13,801
California Water Svc Grp	CWT	$ 19.41	560.0	910.5	1.7x	48.0	$1.00	*$0.92*	*$1.13*	19.4x	21.1x	17.2x	20.3x	-1%	$3.26	9.8x	3.3%	63	1.6%	465,059
Connecticut Water Service	CTWS	$ 27.81	85.9	305.1	1.9x	49.0	$1.47	*$1.43*	*$1.56*	18.9x	19.4x	17.8x	21.0x	8%	$3.86	11.2x	3.5%	66	1.5%	40,336
Consolidated Water	CWCO	$ 9.21	65.5	134.4	1.0x	4.0	$0.64	*$0.43*	*$0.55*	14.4x	21.4x	16.7x	21.3x	-22%	$1.26	5.4x	3.3%	45	1.9%	60,817
Middlesex Water	MSEX	$ 18.76	110.4	296.7	1.6x	42.0	$0.89	*$0.97*	*$0.98*	21.1x	19.3x	19.1x	20.3x	1%	$2.48	11.9x	4.0%	84	1.6%	33,138
SJW Corp.	SJW	$ 25.77	261.5	515.9	1.8x	55.0	$1.18	*$1.33*	*$1.50*	21.8x	19.4x	17.2x	25.3x	8%	$4.62	9.7x	2.8%	60	1.1%	48,632
York Water Co.	YORW	$ 18.19	41.4	235.5	2.4x	46.0	$0.72	*$0.77*	*$0.85*	25.3x	23.6x	21.4x	23.6x	2%	$1.95	12.5x	3.0%	76	1.5%	18,652
			Averages:		2.0x	48.4				21.5x	20.4x	18.8x	21.3x	8.0%		10.9x	3.1%	63.8	1.5%	

Source: Company reports and Baseline **All Averages Ex-CWCO*

GLOSSARY

allowed rate of return- the rate of return a regulatory commission allows on rate base in establishing just and reasonable rates for a utility; it is usually based on the composite cost of financing rate base from debt, preferred stock, and common equity

decoupling- breaks the link between earnings and revenues, allowing utilities to encourage conservation without being penalized from lower usage

DSIC- Distribution System Improvement Charge, infrastructure surcharge allowed in some states (incl. DE, IN, NY, & PA) that allows a portion of costs to be included in rates until a decision is rendered from regulators for a rate case

Bcf- one billion cubic feet

Dekatherm- (Dth) unit of heating value equivalent to 10 therms or 1,000,000 Btu's

desalination- removes salt and particulates from seawater, making it potable

heating degree day- based on extent to which the daily mean temperature falls below a reference temperature, usually 65°F

IISM- Infrastructure Investment Surcharge Mechanism, similar to DSIC in CA

LDC- local distribution company

MCBA- Modified Cost Balancing Account, tracks cost changes such as those for supply mix variations for later recovery or refund in rates and includes all wholesale costs, making balancing accounts more equitable in regards to changes in prices for purchased water, pump taxes, and mix for supply sources in California

Mcf- one thousand cubic feet

MMcf- one million cubic feet

peak-shaving- using sources of energy such as natural gas from storage to supplement the normal amounts delivered to customers during peak-use periods; using these supplemental sources prevents pipelines from having to expand their delivery facilities just to accommodate short periods of extremely high demand

QIPS- Qualifying Infrastructure Plant Surcharge in IL, similar to DSIC

rate base- the value established by a regulatory authority upon which a utility is permitted to earn a specified rate of return, generally representing the amount of property used in public service; the investment included in rate base may be based on fair value, investment, reproduction cost, or original cost; the rate base may provide for the inclusion of working capital with allowances for working capital, materials and supplies

reverse osmosis- moves seawater through a series of filtering membranes with pores that let water molecules permeate, but not salt and pollutants

therm- unit of heating equivalent to 100,000 Btu's

WNA- weather normalization adjustment, the rate adjustment approved by certain regulatory commissions that allow a company to increase the base rate portion of customers' bills when weather is warmer than normal and decrease the base rate when weather is colder than normal

WRAM- Water Revenue Adjustment Mechanism, decouples water sales from revenues in CA

****Adjective Scale Used in Text****

Least Intense	Negligible/Immaterial
	Slight
	Mild/ Minor
	Modest
	Moderate
Most Intense	Major/Severe

Additional information is available upon request.

Prices and all price sensitive data as of Monday, April 15, 2013, close

RECENTLY PUBLISHED RESEARCH (listed chronologically)

California Water Service Group (CWT - $19.41, Neutral) 3/22/13: 2013 Earnings Guidance; Secondary Equity Offering; Lowering Estimates.

Artesian Resources Corp. (ARTNA - $21.97, Neutral) 3/14/13: Mixed Q4 Caps Very Strong Full Year at ARTNA.

York Water Group (YORW - $18.19, Neutral) 3/14/13: Q4'12 Results for YORW.

Chesapeake Utilities Corp. (CPK - $48.47, Buy, $56 TP) 3/8/13: Strong Q4'12 Results for CPK; Thesis Intact; Raising Price Target by $6 to $56.

Piedmont Natural Gas Co. (PNY - $33.19, Long-term Buy, $36 TP) 3/7/13: Solid Fiscal Q1 Results for PNY; Raising Price Target by $1 to $36.

Northwest Natural Gas Co. (NWN - $43.97, Neutral) 3/4/13: Q4'12 Below Expectations; Weak 2013 Guidance; Outlook May Be Bottoming.

South Jersey Industries (SJI - $57.84, Neutral) 3/1/13: Q4'12 Miss for SJI; ITCs Down; Operations Up.

American Water Works Co. (AWK - $41.56, Buy, $45 TP) 2/27/13: Rare Q4'12 Misstep for AWK; Thesis Intact; Maintaining Estimates and Price Target.

Aqua America (WTR - $32.39, Buy, $33 TP) 2/26/13: Q4'12 Results for WTR; Raising Rating to Buy from Long-term Buy and Price Target by $2 to $33.

Laclede Group, Inc. (LG - $44.15, Neutral) 2/22/13: Initiating Coverage of LG with a Neutral Rating.

WGL Holdings, Inc. (WGL - $43.56, Long-term Buy, $45 TP) 2/8/13: Fiscal Q1 Results for WGL; Extending price Target by $3 to $45.

Atmos Energy Corp. (ATO - $42.29, Long-term Buy, $43 TP) 2/7/13: Fiscal Q1'13 Results for ATO; Raising Price Target by $4 to $43.

New Jersey Resources Corp. (NJR - $44.91, Neutral) 2/7/13: Fiscal Q1'13 Results.

Analyst Certifications

I, Spencer E. Joyce, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of California Water Service Group in the past 12 months.

Hilliard Lyons expects to receive investment banking compensation from California Water Service Group in the coming 3 months.

Definitions of Ratings: **Buy** - We believe the stock has significant total return potential in the coming 12 months. **Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues. **Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise. **Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

Definitions of Suitabilities: **1** - A large cap, core holding with a solid history. **2** - A historically secure company that could be cyclical, have a shorter history than a "1" or is subject to event driven setbacks. **3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage. **4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	56	40%	13%	88%
Hold/Neutral	79	57%	13%	87%
Sell	4	3%	0%	100%

As of 10 April 2013

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Atmos Reports Strong First Quarter

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The primary analyst covering this company does not own its stock.

Research as of 07 Feb 2013
Estimates as of 05 Feb 2013
Pricing data through 06 Feb 2013
Rating updated as of 06 Feb 2013

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 07 Feb 2013

Atmos Energy ATO reported solid first-quarter GAAP EPS of $0.88 compared with $0.75 in the same year-ago quarter. Management guided toward the higher end of its fiscal 2013 EPS guidance of $2.40 to $2.50 per share, which will exclude unrealized margins and the planned sale of its Georgia assets. Company management now expects the Georgia transaction to close in the third quarter of fiscal 2013. We are reaffirming our $36 per share fair value estimate, our 2013 EPS estimate, and our stable moat trend. The company will pay a $1.40 per share dividend in fiscal 2013, an increase of $0.02 per share.

Constructive regulatory jurisdictions continue to support solid growth for Atmos' regulated operations. At the company's Mid-Tex Cities unit, the company received an annual increase of $42.6 million along with changes to its rate design providing increased earnings stability. Management reaffirmed its 8% to 8.5% rate base growth and 6% to 8% annual earnings growth target. At the company's nonregulated unit, weather negatively affected total volume with delivered gas unit margins of $0.10 per Mcf. The company opportunistically issued 30-year $500 million senior secured notes to repay an expiring term loan and outstanding commercial paper. Forward interest rate swaps lock in favorable rates through 2017, providing significant interest-cost savings. The company is on track to complete $770 million to $790 million in 2013 capital expenditures.

Vital Statistics

Market Cap (USD Mil)	3,391
52-Week High (USD)	37.75
52-Week Low (USD)	30.39
52-Week Total Return %	19.5
YTD Total Return %	7.0
Last Fiscal Year End	30 Sep 2012
5-Yr Forward Revenue CAGR %	10.2
5-Yr Forward EPS CAGR %	5.8
Price/Fair Value	1.07

Valuation Summary and Forecasts

Fiscal Year:	2011	2012	*2013(E)*	*2014(E)*
Price/Earnings	14.0	15.0	*15.3*	*14.1*
EV/EBITDA	0.0	0.0	*0.0*	*0.0*
EV/EBIT	0.0	0.0	*0.0*	*0.0*
Free Cash Flow Yield %	-1,369.3	-1,117.0	*-7,424.0*	*-5,588.6*
Dividend Yield %	4,232.3	NM	*NM*	*NM*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	*2013(E)*	*2014(E)*
Revenue	4,286,435	3,438,483	*3,373,669*	*3,961,503*
Revenue YoY %	-8.0	-19.8	*-1.9*	*17.4*
EBIT	456,256	451,528	*491,048*	*543,399*
EBIT YoY %	-1.6	-1.0	*8.8*	*10.7*
Net Income, Adjusted	208,949	216,717	*224,150*	*243,533*
Net Income YoY %	10.1	3.7	*3.4*	*8.7*
Diluted EPS	2.31	2.38	*2.46*	*2.67*
Diluted EPS YoY %	12.2	3.1	*3.5*	*8.7*
Free Cash Flow	38,339	190,668	*-221,466*	*-146,147*
Free Cash Flow YoY %	-86.3	397.3	*-216.2*	*-34.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Atmos Energy is one of the largest natural gas-only distributors in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2010	2011	2012	Forecast 2013	2014	5-Year Proj. CAGR
Revenue	-11.6	-6.2	-8.0	-19.8	-1.9	17.4	10.2
EBIT	-0.1	2.4	-1.6	-1.0	8.8	10.7	8.5
EBITDA	1.4	1.6	1.3	1.2	8.2	10.1	8.2
Net Income	3.7	-2.4	10.1	3.7	3.4	8.7	6.0
Diluted EPS	3.8	-3.2	12.2	3.1	3.5	8.7	5.8
Earnings Before Interest, after Tax	-0.4	15.2	-12.0	-2.5	-28.5	10.2	-0.5
Free Cash Flow	-27.7	-44.7	-86.3	397.3	-216.2	-34.0	5.5

Profitability	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Operating Margin %	11.2	10.0	10.6	13.1	14.6	13.7	13.2
EBITDA Margin %	17.0	14.6	16.1	20.3	22.4	21.0	20.1
Net Margin %	5.1	4.1	4.9	6.3	6.6	6.2	5.8
Free Cash Flow Margin %	4.1	6.0	0.9	5.6	-6.6	-3.7	-2.2
ROIC %	10.2	11.7	9.8	9.2	5.9	5.9	5.9
Adjusted ROIC %	11.9	13.7	11.5	10.6	6.8	6.7	6.6
Return on Assets %	3.0	3.1	3.0	2.9	2.9	2.9	2.9
Return on Equity %	9.4	9.5	9.4	9.4	9.3	9.6	9.7

Leverage	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Debt/Capital	0.52	0.51	0.52	0.52	0.54	0.56	0.57
Total Debt/EBITDA	3.50	3.37	3.50	3.62	3.92	4.03	4.12
EBITDA/Interest Expense	4.64	4.42	4.57	4.94	5.61	5.34	5.16

Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.05	1.02	—	—
Price/Earnings	14.0	15.0	15.3	14.1
EV/EBITDA	0.0	0.0	0.0	0.0
EV/EBIT	0.0	0.0	0.0	0.0
Free Cash Flow Yield %	-1,369.3	-1,117.0	-7,424.0	-5,588.6
Dividend Yield %	4,232.3	NM	NM	NM

Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.9
Long-Run Tax Rate %	38.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-370,125	-6.6	-4.06
Present Value Stage II	772,614	13.8	8.47
Present Value Stage III	5,218,146	92.8	57.23
Total Firm Value	**5,620,635**	**100.0**	**61.65**
Cash and Equivalents	64,239	—	0.70
Debt	-2,527,365	—	-27.72
Preferred Stock	—	—	—
Other Adjustments	—	—	—
Equity Value	**3,157,509**	**—**	**34.63**
Projected Diluted Shares	91,172		
Fair Value per Share (USD)	**—**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2010	2011	2012	*2013*	*2014*
Revenue	**4,661,060**	**4,286,435**	**3,438,483**	***3,373,669***	***3,961,503***
Cost of Goods Sold	3,346,924	2,985,615	2,114,744	*1,978,116*	*2,461,992*
Gross Profit	**1,314,136**	**1,300,820**	**1,323,739**	***1,395,553***	***1,499,510***
Selling, General & Administrative Expenses	454,621	442,965	453,613	*466,378*	*479,526*
Other Operating Expense (Income)	187,143	177,767	181,073	*188,647*	*215,707*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	208,539	223,832	237,525	*249,479*	*260,878*
Operating Income (ex charges)	**463,833**	**456,256**	**451,528**	***491,048***	***543,399***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	30,270	5,288	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**463,833**	**425,986**	**446,240**	***491,048***	***543,399***
Interest Expense	154,188	150,763	141,174	*134,516*	*155,603*
Interest Income	-591	21,184	-14,644	*5,000*	*5,000*
Pre-Tax Income	**309,054**	**296,407**	**290,422**	***361,532***	***392,796***
Income Tax Expense	119,203	106,819	98,226	*137,382*	*149,262*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	15,988	18,013	24,521	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**205,839**	**207,601**	**216,717**	***224,150***	***243,533***
Weighted Average Diluted Shares Outstanding	92,422	90,652	91,172	*91,146*	*91,146*
Diluted Earnings Per Share	**2.23**	**2.29**	**2.38**	***2.46***	***2.67***
Adjusted Net Income	189,851	208,949	216,717	*224,150*	*243,533*
Diluted Earnings Per Share (Adjusted)	**2.05**	**2.31**	**2.38**	***2.46***	***2.67***
Dividends Per Common Share	1.34	1.37	1.39	*1.40*	*1.43*
EBITDA	**680,793**	**659,141**	**692,333**	***754,573***	***830,590***
Adjusted EBITDA	**680,793**	**689,411**	**697,621**	***754,573***	***830,590***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2010	2011	2012	*2013*	*2014*
Cash and Equivalents	131,952	131,419	64,239	*91,731*	*112,294*
Investments	—	—	—	—	—
Accounts Receivable	273,207	273,303	234,526	*230,105*	*270,199*
Inventory	319,038	289,760	256,415	*189,682*	*236,081*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	150,995	316,471	272,782	*316,471*	*316,471*
Current Assets	**875,192**	**1,010,953**	**827,962**	***827,989***	***935,046***
Net Property Plant, and Equipment	4,793,075	5,147,918	5,475,604	*5,992,079*	*6,414,887*
Goodwill	740,148	740,207	740,207	*740,207*	*740,207*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	355,376	383,793	451,262	*476,262*	*501,262*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**6,763,791**	**7,282,871**	**7,495,035**	***8,036,537***	***8,591,402***
Accounts Payable	266,208	291,205	215,229	*201,324*	*250,570*
Short-Term Debt	486,231	208,830	571,060	*570,929*	*1,070,929*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	413,640	367,563	489,665	*501,665*	*513,665*
Current Liabilities	**1,166,079**	**867,598**	**1,275,954**	***1,273,918***	***1,835,164***
Long-Term Debt	1,809,551	2,206,117	1,956,305	*2,385,305*	*2,275,805*
Deferred Tax Liabilities (Long-Term)	829,128	960,093	1,015,083	*1,030,083*	*1,045,083*
Other Long-Term Operating Liabilities	780,685	993,642	889,090	*864,090*	*839,090*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**4,585,443**	**5,027,450**	**5,136,432**	***5,553,396***	***5,995,142***
Preferred Stock	—	—	—	—	—
Common Stock	451	451	451	*451*	*451*
Additional Paid-in Capital	1,714,364	1,732,935	1,745,467	*1,745,467*	*1,745,467*
Retained Earnings (Deficit)	486,905	570,495	660,932	*757,224*	*870,342*
(Treasury Stock)	—	—	—	—	—
Other Equity	-23,372	-48,460	-48,247	*-20,000*	*-20,000*
Shareholder's Equity	**2,178,348**	**2,255,421**	**2,358,603**	***2,483,142***	***2,596,260***
Minority Interest	—	—	—	—	—
Total Equity	**2,178,348**	**2,255,421**	**2,358,603**	***2,483,142***	***2,596,260***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

	2010	2011	2012	Forecast 2013	Forecast 2014
Net Income	205,839	207,601	216,717	*224,150*	*243,533*
Depreciation	216,960	233,155	246,093	*263,525*	*287,192*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	30,270	5,288	—	—
Deferred Taxes	196,731	117,353	104,319	*15,000*	*15,000*
Other Non-Cash Adjustments	23,491	20,291	17,492	—	—
(Increase) Decrease in Accounts Receivable	-40,401	-96	32,578	*4,421*	*-40,094*
(Increase) Decrease in Inventory	54,014	27,737	28,417	*66,733*	*-46,399*
Change in Other Short-Term Assets	-3,501	-91,567	-29,066	*-43,689*	—
Increase (Decrease) in Accounts Payable	58,069	23,904	-64,234	*-13,905*	*49,247*
Change in Other Short-Term Liabilities	15,274	14,196	29,313	*12,000*	*12,000*
Cash From Operations	**726,476**	**582,844**	**586,917**	***528,234***	***520,479***
(Capital Expenditures)	-542,636	-622,965	-622,965	*-780,000*	*-710,000*
Net (Acquisitions), Asset Sales, and Disposals	—	—	128,223	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-66	-4,421	-4,625	*-50,000*	*-50,000*
Cash From Investing	**-542,702**	**-627,386**	**-499,367**	***-830,000***	***-760,000***
Common Stock Issuance (or Repurchase)	-92,875	2,497	-16,148	—	—
Common Stock (Dividends)	-124,287	-124,011	-125,796	*-127,858*	*-130,415*
Short-Term Debt Issuance (or Retirement)	54,268	83,306	354,141	*-131*	*500,000*
Long-Term Debt Issuance (or Retirement)	-131	82,217	-257,034	*429,000*	*-109,500*
Other Financing Cash Flows	—	—	—	—	—
Cash From Financing	**-163,025**	**44,009**	**-44,837**	***301,011***	***260,085***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*28,247*	—
Net Change in Cash	**20,749**	**-533**	**42,713**	***27,492***	***20,563***

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37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Constructive regulatory environments provide strong rate base growth opportunities.

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Equity Analyst
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The primary analyst covering this company does not own its stock.

Research as of 07 Feb 2013
Estimates as of 05 Feb 2013
Pricing data through 06 Feb 2013
Rating updated as of 06 Feb 2013

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst's Perspective 07 Feb 2013

With its massive, diverse portfolio of gas distribution businesses and a small gas infrastructure business, Atmos has leverage to a structural increase in natural gas use in the U.S. economy. Given current market conditions, management has shifted its focus from growth through acquisitions to internal capital investment opportunities, with management expectations to grow the rate base 8% annually through 2017. Atmos is investing in its most favorable regulatory regimes to drive earnings growth, which we forecast at 8% through 2017. Combined with a 4.0% dividend yield at our fair value estimate, Atmos' returns should be in the middle of the utility pack--not surprising for such a large, geographically diversified company.

Key Investment Considerations

- Trading at 15.3 times our 2013 earnings estimate as of early February, Atmos looks slightly overvalued.
- The fast-growing pipeline and storage business in Texas provides for strong rate base growth in a constructive regulatory environment.
- Atmos management has shifted its growth strategy, and is now focusing on internal capital investment opportunities to drive 8.0% annual rate base growth through 2017.

Vital Statistics

Market Cap (USD Mil)	3,391
52-Week High (USD)	37.75
52-Week Low (USD)	30.39
52-Week Total Return %	19.5
YTD Total Return %	7.0
Last Fiscal Year End	30 Sep 2012
5-Yr Forward Revenue CAGR %	10.2
5-Yr Forward EPS CAGR %	5.8
Price/Fair Value	1.07

Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	14.0	15.0	*15.3*	*14.1*
EV/EBITDA	0.0	0.0	*0.0*	*0.0*
EV/EBIT	0.0	0.0	*0.0*	*0.0*
Free Cash Flow Yield %	-1,369.3	-1,117.0	*-7,424.0*	*-5,588.6*
Dividend Yield %	4,232.3	NM	*NM*	*NM*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	4,286,435	3,438,483	*3,373,669*	*3,961,503*
Revenue YoY %	-8.0	-19.8	*-1.9*	*17.4*
EBIT	456,256	451,528	*491,048*	*543,399*
EBIT YoY %	-1.6	-1.0	*8.8*	*10.7*
Net Income, Adjusted	208,949	216,717	*224,150*	*243,533*
Net Income YoY %	10.1	3.7	*3.4*	*8.7*
Diluted EPS	2.31	2.38	*2.46*	*2.67*
Diluted EPS YoY %	12.2	3.1	*3.5*	*8.7*
Free Cash Flow	38,339	190,668	*-221,466*	*-146,147*
Free Cash Flow YoY %	-86.3	397.3	*-216.2*	*-34.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Atmos Energy is one of the largest natural gas-only distributors in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

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Morningstar Analysis

Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case.

Thesis 07 Feb 2013

As the nation's largest natural gas distribution utility, Atmos Energy brings together a patchwork of local distribution businesses from Virginia to Texas and a lower-risk investment opportunity for dividend-seeking investors. We like this company's focus on the basics and applaud the general efficiency of its overall rate structure, which should consistently provide healthy, if unexciting, returns.

After the sale of its Illinois, Iowa, Missouri, and Georgia businesses, Atmos will have regulated distribution operations across eight states. A highly diversified regulatory environment is one of Atmos' strengths. Harmful rate changes imposed by regulators are the bane of any utility. Regulators' ability to set rates counters the natural monopoly position of the utility, resulting in a narrow economic moat for most utilities.

With so many different jurisdictions Atmos is more insulated from individual negative events. It also enjoys some favorable rate mechanisms in its territories. The company is protected from weather-related fluctuations in customer usage for the bulk of its meter base, with full rate decoupling for another slice of it. Even better, Atmos has an impressive number of rate mechanisms to raise revenue without filing a formal rate case. All these factors help Atmos generate relatively stable cash flows.

Atmos has historically grown through acquisition, purchasing 10 companies in the past 20 years. Its largest by far was the 2004 acquisition of TXU Gas, which added 1.5 million customers and pipelines that access nine substantial natural gas basins in Texas. Atmos took on large amounts of debt to complete the purchase and integrate the TXU assets. It spent a few years trimming its balance sheet to a more favorable size and now maintains near-equal levels of debt and equity, in line with other gas utilities.

Atmos is now focused on organic growth, with most of its $2.0 billion in growth investments in the constructive regulatory Texas jurisdictions. The company benefits from Texas Rule 8.209 on distribution infrastructure investments, allowing it pre-approval by the Texas Railroad Commission and regulatory asset treatment for carrying costs. The company's state transmission and storage investments experience regulatory lag of up to a year while still earning comparatively favorable returns among peer-regulated returns. Management has built strong working relationships with regulators that should continue to result in strong shareholder returns.

Valuation, Growth and Profitability 07 Feb 2013

We are increasing our fair value estimate to $36 per share from $35 per share to account for time-value appreciation. We also lowered our cost of capital assumption from 7.7% to 5.9% to reflect current market conditions, but we cut our perpetuity growth rate assumption, resulting in no net impact on our fair value estimate. Our forecasts incorporate normal weather and an updated five-year company outlook.

We expect regulated growth expenditures will be concentrated at Atmos' mid- and west Texas utilities and regulated pipelines where the company can automatically implement recovery on an annual basis. Atmos has a substantial infrastructure program in these regions, supporting our projected 8.0% annualized rate base growth through 2017. Our fair value estimate incorporates about $3.8 billion in regulated expenditures through 2017. Additionally, our earnings growth estimate incorporates 1% customer growth at the LDCs through 2017, assuming no growth through acquisitions.

We use a 5.9% weighted average cost of capital in our discounted cash flow valuation based on an assumed cost of equity of 8% and current credit spreads.

Scenario Analysis

Investors considering a position in Atmos should consider

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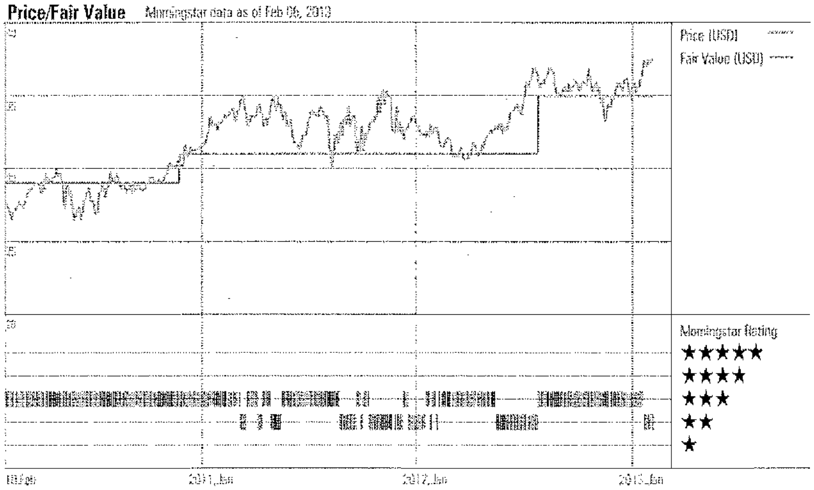
Price/Fair Value Morningstar data as of Feb 06, 2013



three major factors that could materially affect expected returns. The first, as with most regulated utilities, is the company's rate base growth. If we assume spending falls from our forecast levels by 25% annually our fair value estimate falls to $34 per share. If spending were to increase by a similar amount our fair value estimate would rise to $38 per share, assuming full recovery.

Without decoupling mechanisms, Atmos' growth will be influenced by customer usage. A 50-basis-point change in our core customer growth assumption would lead to a $1 per share change in our fair value estimate.

Our assumed cost of equity has a significant impact on our valuation. A 50-basis-point change in our assumed cost of equity would lead to a $4 per share change in our fair value estimate.

Economic Moat

Atmos owns a difficult-to-replicate network of natural gas distribution and transmission assets and provides an essential energy source to customers. In exchange for its service territory monopoly, Atmos' returns are set by state and federal regulators at a level that aims to keep customer costs low while providing adequate returns for capital providers. This implicit contract between regulators and the utility should, in the long run, allow Atmos to earn its cost of capital and leads us to assign the company a narrow moat.

Moat Trend

We do not foresee a material change in the regulatory compact that allows utilities to earn at a level that adequately compensates capital providers while ensuring utilities do not take advantage of their service area monopoly by gouging customers. As with all regulated utilities, we think regulatory caps on revenue and returns preclude Atmos from establishing a wide economic moat.

Atmos' investment program is focused almost entirely on its regulated natural gas distribution and transmission businesses. Furthermore, the company is concentrating its growth expenditures in the territories where its regulatory return is swiftest and most transparent, like Texas.

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Bulls Say/Bears Say

Bulls Say

- Much of Atmos' meter base is covered by favorable rate mechanisms such as weather normalization and automated rate filings, which reduce regulatory risk.
- Atmos' regulated operations are distributed across eight states, insulating companywide profitability from individual negative regulatory outcomes.
- The company has increased its dividend consistently during the past 29 years, with 116 consecutive payouts.

Bears Say

- Although Atmos is protected from weather-related fluctuations, only a small percentage of its service area's rates are decoupled from usage patterns.
- Dividend-paying stocks such as Atmos are sensitive to interest rates. As interest rates go up, dividend-paying stocks can often underperform the broader market.
- If the latest gas LDC deal comparables are any guide, Atmos might significantly overpay for any growth acquisitions, potentially destroying shareholder value.

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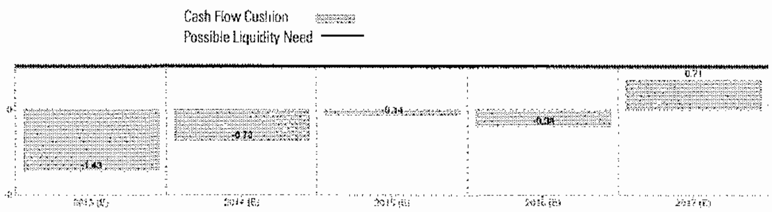
Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2013(E)	2014(E)	2015(E)	2016(E)	2017(E)
Cash and Equivalents (beginning of period)	64,239	91,731	112,294	189,114	226,949
Adjusted Available Cash Flow	-301,552	-229,644	-209,185	-280,357	132,420
Total Cash Available before Debt Service	-237,313	-137,913	-96,890	-91,243	359,368
Principal Payments	-131	—	-500,000	—	-250,000
Interest Payments	-134,516	-155,603	-177,432	-201,786	-216,636
Other Cash Obligations and Commitments	-31,458	-33,457	-34,975	-36,519	-36,519
Total Cash Obligations and Commitments	-166,105	-189,060	-712,407	-238,305	-503,155

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	64,239	3.6
Sum of 5-Year Adjusted Free Cash Flow	-888,318	-49.1
Sum of Cash and 5-Year Cash Generation	-824,079	-45.6
Revolver Availability	702,500	38.8
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	-121,579	-6.7
Sum of 5-Year Cash Commitments	-1,809,032	—

Credit Rating Pillars—Peer Group Comparison

	ATO	Sector	Universe
Business Risk	4	5.0	5.2
Cash Flow Cushion	10	9.2	6.3
Solvency Score	3	5.5	5.1
Distance to Default	3	3.7	4.0
Credit Rating	BBB+	BBB+	BBB+

Source: Morningstar Estimates
Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

Even with its large capital expenditure program, Atmos maintains a strong balance sheet and an investment-grade credit rating. At the end of fiscal 2012, the company's debt/capital ratio was 52%, in line with its peers. Total debt/EBITDA could tick up slightly, averaging 4.0 times through 2017. We believe Atmos' dividend is well covered by its regulated utilities' earnings and expect the dividend payout to remain between 50% and 60%.

Capital Structure

With $3.5 billion of capital spending planned between 2013 and 2017, we expect Amos will be a frequent debt issuer. The company has $131 million of long-term debt maturities in 2013 and $500 million in 2015. We expect Atmos will be able to refinance its debt as it comes due and will maintain its debt/capital ratio by funding about half of its growth capital expenditure with new debt. Given Atmos' cash from operations and healthy cash position, we do not expect the firm to tap the equity markets in the near term to fund its growth plans.

Enterprise Risk

The primary uncertainty Atmos faces is regulatory, though the size and breadth of its distribution operations preclude any one regulatory decision from having a drastic impact on earnings. Still, lower allowed returns or political pushback on Atmos' favorable rate mechanisms would cause the company significant pain, especially in Texas, its largest service territory. Overpaying for acquisitions is also a risk given the company's acquisitive past.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. J. D. WOODWARD,III		728,364	03 Apr 2006	—
ROBERT W. BEST	Director	437,548	09 Nov 2012	—
MR. KIM R. COCKLIN	CEO/Director/President,Director	164,304	09 Nov 2012	—
CHARLES K. VAUGHAN	Director	94,786	27 Dec 2012	—
MR. JOHN (PAT) PATRICK REDDY		79,685	31 Dec 2008	—
CARL S. QUINN	Director	57,769	01 Jul 2004	—
R. EARL FISCHER		55,540	09 Nov 2006	—
WYNN D. MCGREGOR		46,289	06 Feb 2009	—
THOMAS J. GARLAND	Director	45,082	03 Feb 2010	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Allianz NFJ Small Cap Value Instl	★★★★★	2.05	0.94	-55	31 Aug 2012
SPDR S&P Dividend	★★★★★	2.01	0.67	-3	21 Sep 2012
Vanguard Small Cap Index Inv	★★★★	1.61	0.20	39	30 Jun 2012
Vanguard Small Cap Index		1.57	0.17	1,415	31 Mar 2012
Vanguard US Total Market Shares (AU) ETF		1.26	0.02	38	30 Jun 2012
Concentrated Holders					
New Alternatives	★	0.25	5.66	-25	30 Jun 2012
Magellan Infrastructure	★★★★	0.27	3.79	—	30 Jun 2012
WIOF Global Listed Utilities B	★★★★	—	2.69	—	31 Aug 2012
Speece Thorson Value Fund	★★★★★	0.03	2.41	—	31 Aug 2012

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Vanguard Small Cap Index		1.57	0.17	1,415	31 Mar 2012
Vanguard Total Stock Mkt Idx		1.22	0.02	1,103	31 Mar 2012
SSgA S&P MidCap 400 Index Strategy		0.60	0.22	544	31 Mar 2012
Fidelity Series Small Cap Opps	★★★★	0.29	0.38	262	30 Apr 2012
Fidelity Stock Selector Sm Cp	★★	0.20	0.38	179	30 Apr 2012
Top 5 Sellers					
TFS Market Neutral	★★★★★	—	0.01	-96	31 Jul 2012
First Trust Utilities AlphaDEX	★★★★	0.07	1.45	-72	31 Jul 2012
American Beacon Small Cp Val Inst	★★★	0.09	0.09	-68	31 Jul 2012
LSV Value Equity	★★★	0.15	0.45	-66	30 Jun 2012
Allianz NFJ Small Cap Value Instl	★★★★★	2.05	0.94	-55	31 Aug 2012

Stewardship: 07 Feb 2013

Overall, we think Atmos' management team has been a good steward of shareholder capital. Management has been consistent with paying--and increasing--its dividend over the past 28 years. We think management has been disciplined in acquisitions, providing shareholder value by creating the largest distribution utility in favorable regulatory jurisdictions.

Kim Cocklin replaced Robert Best as CEO in 2010. Cocklin had been president and COO of Atmos since 2008. Previously, he was a senior vice president in regulated operations for the company and had worked for Piedmont Gas for three years before that. Best had been president of Atmos since 1997 and served as the chairman of the American Gas Association in 2004. He oversaw seven acquisitions after inheriting the Atmos throne, expanding the company to the largest distribution utility in the U.S.

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Analyst Notes

Atmos Fiscal Year Earnings on Track and 2013 EPS Guidance in Line 08 Nov 2012

Atmos Energy ATO reported fiscal 2012 GAAP EPS of $2.37 compared with $2.27 in the year-ago quarter. Management initiated fiscal year 2013 of $2.40-$2.50 per share from ongoing operations, which will exclude unrealized margins and the planned sale of its Georgia assets. Management affirmed its previous 6%-8% annual earnings growth target. We are reaffirming our $35 fair value estimate and our 2013 $2.45 EPS estimate. The company plans to pay a $1.40 per share dividend in 2013, an increase of $0.02 per share.

Atmos continued to benefit from constructive regulatory environments and timely rate increases throughout 2012. At the company's natural gas distribution unit, full-year gross margin was $1.02 billion, up slightly from 2011. Atmos benefited from $17.7 million in incremental margin from rate adjustments. Distribution throughput declined 8% from warmer weather, but the company is effectively 94% protected from weather impacts as adjustment mechanisms provide for reimbursements from lower consumption during warmer months. Regulated transmission and storage gross profit increased 12.7% to $247 million in the current fiscal quarter. The company benefited from rate design changes at its Texas Pipeline and Gas Reliability Infrastructure Program filings in Texas.

At the company's nonregulated unit, gross profit declined 15% for the fiscal year to $55.1 million. Warmer weather translated into lower volumes and a $15 million drop in gross margin. This was offset from the effects of a favorable trading strategy implemented earlier in the year, which opportunistically took advantage of falling prices, storing cheap gas and rolling forward the positions.

On a consolidated basis, operation and maintenance expense edged up 2.4%, primarily from higher legal expenses and higher compensation costs. Capital investments of $733 million led to a 6% increase in depreciation expense. In 2013, management expects capital expenditures in a range of $770 million-$790 million. For the year, income taxes declined $8.6 million to $98.2 million, partially reflecting a tax benefit from the sale of its Missouri, Illinois, and Iowa assets.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2010	2011	2012	Forecast 2013	Forecast 2014	5-Year Proj. CAGR
Revenue	-11.6	-6.2	-8.0	-19.8	-1.9	17.4	10.2
EBIT	-0.1	2.4	-1.6	-1.0	8.8	10.7	8.5
EBITDA	1.4	1.6	1.3	1.2	8.2	10.1	8.2
Net Income	3.7	-2.4	10.1	3.7	3.4	8.7	6.0
Diluted EPS	3.8	-3.2	12.2	3.1	3.5	8.7	5.8
Earnings Before Interest, after Tax	-0.4	15.2	-12.0	-2.5	-28.5	10.2	-0.5
Free Cash Flow	-27.7	-44.7	-86.3	397.3	-216.2	-34.0	5.5

Profitability	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Operating Margin %	11.2	10.0	10.6	13.1	14.6	13.7	13.2
EBITDA Margin %	17.0	14.6	16.1	20.3	22.4	21.0	20.1
Net Margin %	5.1	4.1	4.9	6.3	6.6	6.2	5.8
Free Cash Flow Margin %	4.1	6.0	0.9	5.6	-6.6	-3.7	-2.2
ROIC %	10.2	11.7	9.8	9.2	5.9	5.9	5.9
Adjusted ROIC %	11.9	13.7	11.5	10.6	6.8	6.7	6.6
Return on Assets %	3.0	3.1	3.0	2.9	2.9	2.9	2.9
Return on Equity %	9.4	9.5	9.4	9.4	9.3	9.6	9.7

Leverage	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Debt/Capital	0.52	0.51	0.52	0.52	0.54	0.56	0.57
Total Debt/EBITDA	3.50	3.37	3.50	3.62	3.92	4.03	4.12
EBITDA/Interest Expense	4.64	4.42	4.57	4.94	5.61	5.34	5.16

Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.05	1.02	—	—
Price/Earnings	14.0	15.0	15.3	14.1
EV/EBITDA	0.0	0.0	0.0	0.0
EV/EBIT	0.0	0.0	0.0	0.0
Free Cash Flow Yield %	-1,369.3	-1,117.0	-7,424.0	-5,588.6
Dividend Yield %	4,232.3	NM	NM	NM

Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.9
Long-Run Tax Rate %	38.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-370,125	-6.6	-4.06
Present Value Stage II	772,614	13.8	8.47
Present Value Stage III	5,218,146	92.8	57.23
Total Firm Value	**5,620,635**	**100.0**	**61.65**
Cash and Equivalents	64,239	—	0.70
Debt	-2,527,365	—	-27.72
Preferred Stock	—	—	—
Other Adjustments	—	—	—
Equity Value	**3,157,509**	—	**34.63**
Projected Diluted Shares	91,172		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2010	2011	2012	*Forecast* 2013	*Forecast* 2014
Revenue	**4,661,060**	**4,286,435**	**3,438,483**	***3,373,669***	***3,961,503***
Cost of Goods Sold	3,346,924	2,985,615	2,114,744	*1,978,116*	*2,461,992*
Gross Profit	**1,314,136**	**1,300,820**	**1,323,739**	***1,395,553***	***1,499,510***
Selling, General & Administrative Expenses	454,621	442,965	453,613	*466,378*	*479,526*
Other Operating Expense (Income)	187,143	177,767	181,073	*188,647*	*215,707*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	208,539	223,832	237,525	*249,479*	*260,878*
Operating Income (ex charges)	**463,833**	**456,256**	**451,528**	***491,048***	***543,399***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	30,270	5,288	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**463,833**	**425,986**	**446,240**	***491,048***	***543,399***
Interest Expense	154,188	150,763	141,174	*134,516*	*155,603*
Interest Income	-591	21,184	-14,644	*5,000*	*5,000*
Pre-Tax Income	**309,054**	**296,407**	**290,422**	***361,532***	***392,796***
Income Tax Expense	119,203	106,819	98,226	*137,382*	*149,262*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	15,988	18,013	24,521	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**205,839**	**207,601**	**216,717**	***224,150***	***243,533***
Weighted Average Diluted Shares Outstanding	92,422	90,652	91,172	*91,146*	*91,146*
Diluted Earnings Per Share	**2.23**	**2.29**	**2.38**	***2.46***	***2.67***
Adjusted Net Income	189,851	208,949	216,717	*224,150*	*243,533*
Diluted Earnings Per Share (Adjusted)	**2.05**	**2.31**	**2.38**	***2.46***	***2.67***
Dividends Per Common Share	1.34	1.37	1.39	*1.40*	*1.43*
EBITDA	**680,793**	**659,141**	**692,333**	***754,573***	***830,590***
Adjusted EBITDA	**680,793**	**689,411**	**697,621**	***754,573***	***830,590***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)
Fiscal Year Ends in December

	2010	2011	2012	*Forecast* 2013	*Forecast* 2014
Cash and Equivalents	131,952	131,419	64,239	*91,731*	*112,294*
Investments	—	—	—	—	—
Accounts Receivable	273,207	273,303	234,526	*230,105*	*270,199*
Inventory	319,038	289,760	256,415	*189,682*	*236,081*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	150,995	316,471	272,782	*316,471*	*316,471*
Current Assets	**875,192**	**1,010,953**	**827,962**	***827,989***	***935,046***
Net Property Plant, and Equipment	4,793,075	5,147,918	5,475,604	*5,992,079*	*6,414,887*
Goodwill	740,148	740,207	740,207	*740,207*	*740,207*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	355,376	383,793	451,262	*476,262*	*501,262*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**6,763,791**	**7,282,871**	**7,495,035**	***8,036,537***	***8,591,402***
Accounts Payable	266,208	291,205	215,229	*201,324*	*250,570*
Short-Term Debt	486,231	208,830	571,060	*570,929*	*1,070,929*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	413,640	367,563	489,665	*501,665*	*513,665*
Current Liabilities	**1,166,079**	**867,598**	**1,275,954**	***1,273,918***	***1,835,164***
Long-Term Debt	1,809,551	2,206,117	1,956,305	*2,385,305*	*2,275,805*
Deferred Tax Liabilities (Long-Term)	829,128	960,093	1,015,083	*1,030,083*	*1,045,083*
Other Long-Term Operating Liabilities	780,685	993,642	889,090	*864,090*	*839,090*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**4,585,443**	**5,027,450**	**5,136,432**	***5,553,396***	***5,995,142***
Preferred Stock	—	—	—	—	—
Common Stock	451	451	451	*451*	*451*
Additional Paid-in Capital	1,714,364	1,732,935	1,745,467	*1,745,467*	*1,745,467*
Retained Earnings (Deficit)	486,905	570,495	660,932	*757,224*	*870,342*
(Treasury Stock)	—	—	—	—	—
Other Equity	-23,372	-48,460	-48,247	*-20,000*	*-20,000*
Shareholder's Equity	**2,178,348**	**2,255,421**	**2,358,603**	***2,483,142***	***2,596,260***
Minority Interest	—	—	—	—	—
Total Equity	**2,178,348**	**2,255,421**	**2,358,603**	***2,483,142***	***2,596,260***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2010	2011	2012	*Forecast 2013*	*Forecast 2014*
Net Income	205,839	207,601	216,717	*224,150*	*243,533*
Depreciation	216,960	233,155	246,093	*263,525*	*287,192*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	30,270	5,288	—	—
Deferred Taxes	196,731	117,353	104,319	*15,000*	*15,000*
Other Non-Cash Adjustments	23,491	20,291	17,492	—	—
(Increase) Decrease in Accounts Receivable	-40,401	-96	32,578	*4,421*	*-40,094*
(Increase) Decrease in Inventory	54,014	27,737	28,417	*66,733*	*-46,399*
Change in Other Short-Term Assets	-3,501	-91,567	-29,066	*-43,689*	—
Increase (Decrease) in Accounts Payable	58,069	23,904	-64,234	*-13,905*	*49,247*
Change in Other Short-Term Liabilities	15,274	14,196	29,313	*12,000*	*12,000*
Cash From Operations	**726,476**	**582,844**	**586,917**	***528,234***	***520,479***
(Capital Expenditures)	-542,636	-622,965	-622,965	*-780,000*	*-710,000*
Net (Acquisitions), Asset Sales, and Disposals	—	—	128,223	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-66	-4,421	-4,625	*-50,000*	*-50,000*
Cash From Investing	**-542,702**	**-627,386**	**-499,367**	***-830,000***	***-760,000***
Common Stock Issuance (or Repurchase)	-92,875	2,497	-16,148	—	—
Common Stock (Dividends)	-124,287	-124,011	-125,796	*-127,858*	*-130,415*
Short-Term Debt Issuance (or Retirement)	54,268	83,306	354,141	*-131*	*500,000*
Long-Term Debt Issuance (or Retirement)	-131	82,217	-257,034	*429,000*	*-109,500*
Other Financing Cash Flows	—	—	—	—	—
Cash From Financing	**-163,025**	**44,009**	**-44,837**	***301,011***	***260,085***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*28,247*	—
Net Change in Cash	**20,749**	**-533**	**42,713**	***27,492***	***20,563***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
AGL Resources, Inc. GAS USA	1.06	15.1	13.7	13.2	8.4	8.0	7.5	11.0	44.8	146.8	1.3	1.3	1.3	1.1	1.0	1.0
New Jersey Resources Corporation	1.07	—	14.7	13.9	—	12.9	11.8	—	60.4	110.3	—	2.0	1.8	—	0.6	0.6
Average		15.1	14.2	13.6	8.4	10.5	9.7	11.0	52.6	128.6	1.3	1.7	1.6	1.1	0.8	0.8
Atmos Energy Corp ATO US	**1.07**	**15.0**	***15.3***	***14.1***	**0.0**	***0.0***	***0.0***	**NM**	***NM***	***NM***	**0.0**	***0.0***	***0.0***	**0.0**	***0.0***	***0.0***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
AGL Resources, Inc. GAS USA	— USD	6.8	6.1	6.3	8.6	7.6	7.8	9.1	9.6	9.6	2.2	2.4	2.4	4.6	4.7	4.9
New Jersey Resources Corporation	— USD	9.4	7.4	7.4	9.4	7.4	7.4	14.0	14.1	14.0	4.2	4.3	4.4	—	4.1	4.3
Average		8.1	6.8	6.9	9.0	7.5	7.6	11.6	11.9	11.8	3.2	3.4	3.4	4.6	4.4	4.6
Atmos Energy Corp ATO US	**7,495,035** USD	**9.2**	***5.9***	***5.9***	**10.6**	***6.8***	***6.7***	**9.4**	***9.3***	***9.6***	**2.9**	***2.9***	***2.9***	**NM**	***NM***	***NM***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)	2012	2013(E)	2014(E)
AGL Resources, Inc. GAS USA	4,300 USD	83.9	7.8	7.5	56.9	8.0	7.3	-8.4	9.8	4.1	-132.6	-7.7	-8.5	3.2	3.2	4.0
New Jersey Resources Corporation	2,178 USD	-27.6	23.3	5.6	-2.2	9.3	9.7	3.9	6.8	5.6	-100.4	-14,783.4	-25.2	3.9	5.0	5.0
Average		28.2	15.6	6.6	27.4	8.7	8.5	-2.3	8.3	4.9	-116.5	-7,395.6	-16.9	3.6	4.1	4.5
Atmos Energy Corp ATO US	**3,438,483** USD	**-19.8**	***-1.9***	***17.4***	**-1.0**	***8.8***	***10.7***	**3.1**	***3.5***	***8.7***	**397.3**	***-216.2***	***-34.0***	**1.6**	***0.9***	***2.0***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
37.58 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2012	2013(E)	2014(E)	EBITDA Margin % 2012	2013(E)	2014(E)	Operating Margin % 2012	2013(E)	2014(E)	Net Margin % 2012	2013(E)	2014(E)	Free Cash Flow Margin % 2012	2013(E)	2014(E)
AGL Resources, Inc. GAS USA	313 USD	52.7	52.6	51.5	25.4	24.9	24.5	16.1	16.1	16.1	7.3	7.4	7.2	10.0	2.3	0.7
New Jersey Resources Corporation	111 USD	20.2	18.5	19.0	8.3	7.4	7.6	6.4	5.7	5.9	5.1	4.4	4.5	-2.2	1.1	0.6
Average		36.5	35.6	35.3	16.9	16.2	16.1	11.3	10.9	11.0	6.2	5.9	5.9	3.9	1.7	0.7
Atmos Energy Corp ATO US	**216,717** USD	**38.5**	***41.4***	***37.9***	**20.3**	***22.4***	***21.0***	**13.1**	***14.6***	***13.7***	**6.3**	***6.6***	***6.2***	**-1.1**	***-7.5***	***-4.8***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2012	2013(E)	2014(E)	Debt/Total Cap % 2012	2013(E)	2014(E)	EBITDA/Interest Exp. 2012	2013(E)	2014(E)	Total Debt/EBITDA 2012	2013(E)	2014(E)	Assets/Equity 2012	2013(E)	2014(E)
AGL Resources, Inc. GAS USA	4,804 USD	136.1	134.8	135.3	57.6	57.4	57.5	5.9	6.0	5.5	4.4	4.3	4.2	4.0	4.0	4.0
New Jersey Resources Corporation	677 USD	81.5	79.3	79.0	44.9	44.2	44.1	8.5	9.3	9.2	3.7	3.6	3.5	3.3	3.2	3.1
Average		108.8	107.1	107.2	51.3	50.8	50.8	7.2	7.7	7.4	4.1	4.0	3.9	3.7	3.6	3.6
Atmos Energy Corp ATO US	**2,527,365** USD	**107.2**	***119.1***	***128.9***	**51.7**	***54.4***	***56.3***	**4.9**	***5.6***	***5.3***	**3.6**	***3.9***	***4.0***	**3.2**	***3.2***	***3.3***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2012	2013(E)	2014(E)	Current Ratio 2012	2013(E)	2014(E)	Quick Ratio 2012	2013(E)	2014(E)	Cash/Short-Term Debt 2012	2013(E)	2014(E)	Payout Ratio % 2012	2013(E)	2014(E)
AGL Resources, Inc. GAS USA	4,745 USD	0.22	0.38	0.73	0.88	0.92	0.96	0.62	0.64	0.66	0.03	0.05	0.09	69.5	65.3	65.3
New Jersey Resources Corporation	1,742 USD	0.34	0.31	0.29	0.96	1.00	1.00	0.64	0.65	0.65	0.06	0.06	0.06	59.2	57.9	57.7
Average		0.28	0.35	0.51	0.92	0.96	0.98	0.63	0.65	0.66	0.05	0.06	0.08	64.4	61.6	61.5
Atmos Energy Corp ATO US	**3,391** USD	**0.70**	***1.01***	***1.23***	**0.65**	***0.65***	***0.51***	**0.45**	***0.50***	***0.38***	**0.11**	***0.16***	***0.10***	**58.1**	***57.0***	***53.6***

Research Methodology for Valuing Companies

Components of Our Methodology

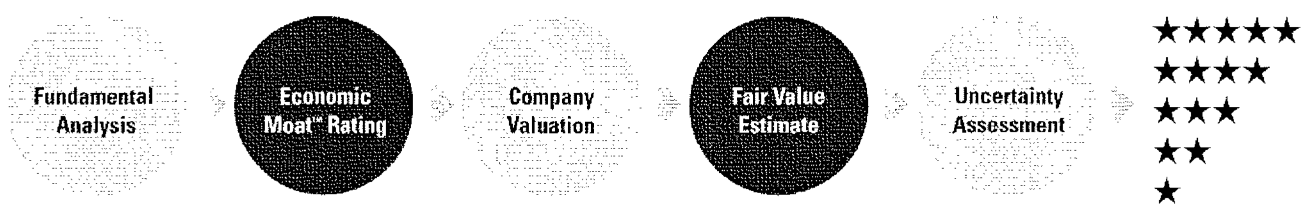
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Analyst conducts company and industry research:

- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs (Microsoft)

Cost advantage (Wal-Mart)

Intangible assets (Johnson & Johnson)

Network Effect (Mastercard)

Efficient Scale (Lockheed Martin)

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.

The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme.

The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

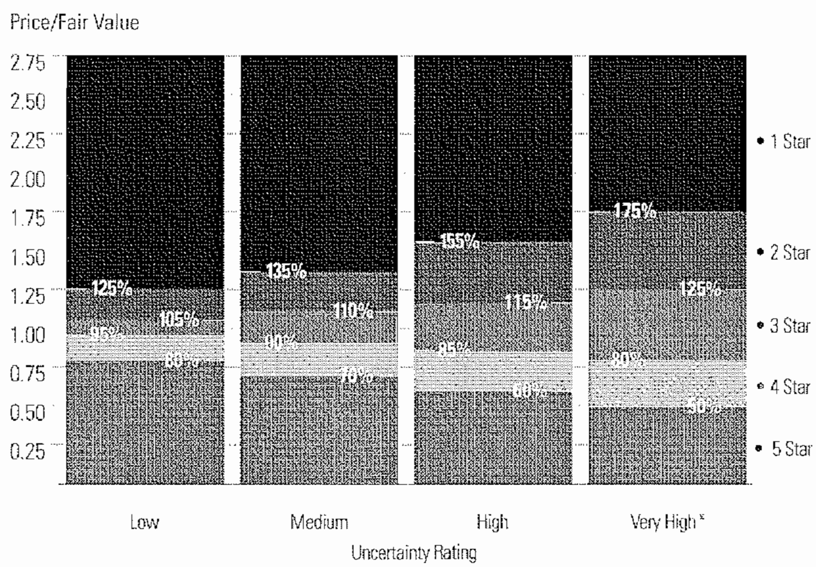
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Morningstar's Approach to Rating Corporate Credit

- Offers a proprietary measure of the credit quality of companies on our coverage list.
- Encapsulates our in-depth modeling and quantitative work in one letter grade.
- Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- Five years of detailed pro-forma financial statements
- Annual estimates of free cash flow
- Annual forecasts of return on invested capital
- Scenario analyses, including upside and downside cases
- Forecasts of leverage, coverage, and liquidity ratios for five years
- Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

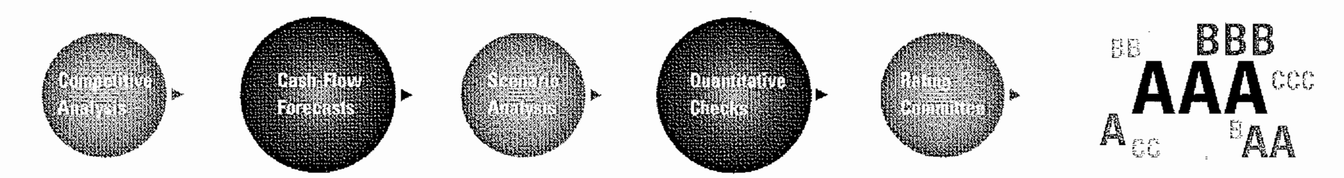
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade show visits
- Competitor, supplier, distributor, and customer interviews
- Assign Economic Moat™ Rating

Analyst considers company financial statements and competitive dynamics to forecast future free cash flows to the firm.

Analyst derives estimate of Cash-Flow Cushion™.

Analysts run bull and bear cases through the model to derive alternate estimates of enterprise value.

Based on competitive analysis, cash-flow forecasts, and scenario analysis, the analyst assigns Business Risk.

We gauge a firm's health using quantitative tools supported by our own backtesting and academic research.

- Morningstar Solvency Score℠
- Distance to Default

Senior personnel review each company to determine the appropriate final credit rating.

- Review modeling assumptions
- Approve company-specific adjustments

AAA	Extremely Low Default Risk
AA	Very Low Default Risk
A	Low Default Risk
BBB	Moderate Default Risk
BB	Above Average Default Risk
B	High Default Risk
CCC	Currently Very High Default Risk
CC	Currently Extreme Default Risk
C	Imminent Payment Default
D	Payment Default
UR	Under Review
UR+	Positive Credit Implication
UR-	Negative Credit Implication

Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
43.62 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Atmos Energy Reports Second-Quarter Earnings, Increases Full Fiscal Year Guidance

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The primary analyst covering this company does not own its stock.

Research as of 02 May 2013
Estimates as of 05 Feb 2013
Pricing data through 01 May 2013
Rating updated as of 01 May 2013

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 02 May 2013

Atmos Energy ATO reported solid second-quarter EPS from continued operations of $1.25 compared with $1.28 in the same year-ago quarter. Management increased its fiscal 2013 EPS guidance to $2.45 to $2.55 per share, up from previous guidance of $2.40 to $2.50. We are reaffirming our $36 per share fair value estimate, 2013 EPS estimate, narrow moat, and stable moat trend. The company will pay a $1.40 per share dividend in fiscal 2013, an increase of $0.02 per share from 2012.

Natural gas distribution gross profit fell 7%, although the decline was due to a recent rate design in Texas where fiscal-year margins shift into the second half of the year. Under the new regulation, customers will now have a higher base charge offset by a decline in the usage charge, leaving full-year margins intact. Transmission and storage profit increased 6.5% due to the additional revenue from favorable regulatory GRIP (Gas Reliability Infrastructure Program) filings, which allow real-time return on approved capital costs. The company's asset optimization program helped drive nonregulated earnings up 17%, although the unit only accounts for 7% of total company gross profit.

Constructive regulatory jurisdictions should continue to support solid growth for Atmos' regulated operations, particularly in Texas with favorable GRIP regulation and Texas Rule 8.209, which encourages distribution spending for system safety and reliability infrastructure investments. Management reaffirmed its 8% to 8.5% rate base growth and 6% to 8% annual earnings growth target. The company is on track to complete $770 million to $790 million in 2013 capital expenditures.

Vital Statistics

Market Cap (USD Mil)	3,948
52-Week High (USD)	44.55
52-Week Low (USD)	32.10
52-Week Total Return %	37.1
YTD Total Return %	25.2
Last Fiscal Year End	30 Sep 2012
5-Yr Forward Revenue CAGR %	10.2
5-Yr Forward EPS CAGR %	5.8
Price/Fair Value	1.21

Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	14.0	15.0	*17.7*	*16.3*
EV/EBITDA	0.0	0.0	*0.0*	*0.0*
EV/EBIT	0.0	0.0	*0.0*	*0.0*
Free Cash Flow Yield %	-1,369.3	-1,117.0	*-6,376.5*	*-4,800.0*
Dividend Yield %	4,232.3	NM	*NM*	*NM*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	4,286,435	3,438,483	*3,373,669*	*3,961,503*
Revenue YoY %	-8.0	-19.8	*-1.9*	*17.4*
EBIT	456,256	451,528	*491,048*	*543,399*
EBIT YoY %	-1.6	-1.0	*8.8*	*10.7*
Net Income, Adjusted	208,949	216,717	*224,150*	*243,533*
Net Income YoY %	10.1	3.7	*3.4*	*8.7*
Diluted EPS	2.31	2.38	*2.46*	*2.67*
Diluted EPS YoY %	12.2	3.1	*3.5*	*8.7*
Free Cash Flow	38,339	190,668	*-221,466*	*-146,147*
Free Cash Flow YoY %	-86.3	397.3	*-216.2*	*-34.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Atmos Energy is one of the largest natural gas-only distributors in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
43.62 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2010	2011	2012	Forecast 2013	Forecast 2014	5-Year Proj. CAGR
Revenue	-11.6	-6.2	-8.0	-19.8	-1.9	17.4	10.2
EBIT	-0.1	2.4	-1.6	-1.0	8.8	10.7	8.5
EBITDA	1.4	1.6	1.3	1.2	8.2	10.1	8.2
Net Income	3.7	-2.4	10.1	3.7	3.4	8.7	6.0
Diluted EPS	3.8	-3.2	12.2	3.1	3.5	8.7	5.8
Earnings Before Interest, after Tax	-0.4	15.2	-12.0	-2.5	-28.5	10.2	-0.5
Free Cash Flow	-27.7	-44.7	-86.3	397.3	-216.2	-34.0	5.5

Profitability	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Operating Margin %	11.2	10.0	10.6	13.1	14.6	13.7	13.2
EBITDA Margin %	17.0	14.6	16.1	20.3	22.4	21.0	20.1
Net Margin %	5.1	4.1	4.9	6.3	6.6	6.2	5.8
Free Cash Flow Margin %	4.1	6.0	0.9	5.6	-6.6	-3.7	-2.2
ROIC %	10.2	11.7	9.8	9.2	5.9	5.9	5.9
Adjusted ROIC %	11.9	13.7	11.5	10.6	6.8	6.7	6.6
Return on Assets %	3.0	3.1	3.0	2.9	2.9	2.9	2.9
Return on Equity %	9.4	9.5	9.4	9.4	9.3	9.6	9.7

Leverage	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Debt/Capital	0.52	0.51	0.52	0.52	0.54	0.56	0.57
Total Debt/EBITDA	3.50	3.37	3.50	3.62	3.92	4.03	4.12
EBITDA/Interest Expense	4.64	4.42	4.57	4.94	5.61	5.34	5.16

Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.05	1.02	—	—
Price/Earnings	14.0	15.0	17.7	16.3
EV/EBITDA	0.0	0.0	0.0	0.0
EV/EBIT	0.0	0.0	0.0	0.0
Free Cash Flow Yield %	-1,369.3	-1,117.0	-6,376.5	-4,800.0
Dividend Yield %	4,232.3	NM	NM	NM

Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.9
Long-Run Tax Rate %	38.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-370,125	-6.6	-4.06
Present Value Stage II	772,614	13.8	8.47
Present Value Stage III	5,218,146	92.8	57.23
Total Firm Value	**5,620,635**	**100.0**	**61.65**
Cash and Equivalents	64,239	—	0.70
Debt	-2,527,365	—	-27.72
Preferred Stock	—	—	—
Other Adjustments	—	—	—
Equity Value	**3,157,509**	**—**	**34.63**
Projected Diluted Shares	91,172		
Fair Value per Share (USD)	**—**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

MORNINGSTAR®

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
43.62 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2010	2011	2012	*2013*	*2014*
Revenue	**4,661,060**	**4,286,435**	**3,438,483**	***3,373,669***	***3,961,503***
Cost of Goods Sold	3,346,924	2,985,615	2,114,744	*1,978,116*	*2,461,992*
Gross Profit	**1,314,136**	**1,300,820**	**1,323,739**	***1,395,553***	***1,499,510***
Selling, General & Administrative Expenses	454,621	442,965	453,613	*466,378*	*479,526*
Other Operating Expense (Income)	187,143	177,767	181,073	*188,647*	*215,707*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	208,539	223,832	237,525	*249,479*	*260,878*
Operating Income (ex charges)	**463,833**	**456,256**	**451,528**	***491,048***	***543,399***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	30,270	5,288	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**463,833**	**425,986**	**446,240**	***491,048***	***543,399***
Interest Expense	154,188	150,763	141,174	*134,516*	*155,603*
Interest Income	-591	21,184	-14,644	*5,000*	*5,000*
Pre-Tax Income	**309,054**	**296,407**	**290,422**	***361,532***	***392,796***
Income Tax Expense	119,203	106,819	98,226	*137,382*	*149,262*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	15,988	18,013	24,521	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**205,839**	**207,601**	**216,717**	***224,150***	***243,533***
Weighted Average Diluted Shares Outstanding	92,422	90,652	91,172	*91,146*	*91,146*
Diluted Earnings Per Share	**2.23**	**2.29**	**2.38**	***2.46***	***2.67***
Adjusted Net Income	189,851	208,949	216,717	*224,150*	*243,533*
Diluted Earnings Per Share (Adjusted)	**2.05**	**2.31**	**2.38**	***2.46***	***2.67***
Dividends Per Common Share	1.34	1.37	1.39	*1.40*	*1.43*
EBITDA	**680,793**	**659,141**	**692,333**	***754,573***	***830,590***
Adjusted EBITDA	**680,793**	**689,411**	**697,621**	***754,573***	***830,590***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
43.62 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2010	2011	2012	Forecast 2013	Forecast 2014
Cash and Equivalents	131,952	131,419	64,239	*91,731*	*112,294*
Investments	—	—	—	—	—
Accounts Receivable	273,207	273,303	234,526	*230,105*	*270,199*
Inventory	319,038	289,760	256,415	*189,682*	*236,081*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	150,995	316,471	272,782	*316,471*	*316,471*
Current Assets	**875,192**	**1,010,953**	**827,962**	***827,989***	***935,046***
Net Property Plant, and Equipment	4,793,075	5,147,918	5,475,604	*5,992,079*	*6,414,887*
Goodwill	740,148	740,207	740,207	*740,207*	*740,207*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	355,376	383,793	451,262	*476,262*	*501,262*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**6,763,791**	**7,282,871**	**7,495,035**	***8,036,537***	***8,591,402***
Accounts Payable	266,208	291,205	215,229	*201,324*	*250,570*
Short-Term Debt	486,231	208,830	571,060	*570,929*	*1,070,929*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	413,640	367,563	489,665	*501,665*	*513,665*
Current Liabilities	**1,166,079**	**867,598**	**1,275,954**	***1,273,918***	***1,835,164***
Long-Term Debt	1,809,551	2,206,117	1,956,305	*2,385,305*	*2,275,805*
Deferred Tax Liabilities (Long-Term)	829,128	960,093	1,015,083	*1,030,083*	*1,045,083*
Other Long-Term Operating Liabilities	780,685	993,642	889,090	*864,090*	*839,090*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**4,585,443**	**5,027,450**	**5,136,432**	***5,553,396***	***5,995,142***
Preferred Stock	—	—	—	—	—
Common Stock	451	451	451	*451*	*451*
Additional Paid-in Capital	1,714,364	1,732,935	1,745,467	*1,745,467*	*1,745,467*
Retained Earnings (Deficit)	486,905	570,495	660,932	*757,224*	*870,342*
(Treasury Stock)	—	—	—	—	—
Other Equity	-23,372	-48,460	-48,247	*-20,000*	*-20,000*
Shareholder's Equity	**2,178,348**	**2,255,421**	**2,358,603**	***2,483,142***	***2,596,260***
Minority Interest	—	—	—	—	—
Total Equity	**2,178,348**	**2,255,421**	**2,358,603**	***2,483,142***	***2,596,260***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
43.62 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2010	2011	2012	Forecast 2013	Forecast 2014
Net Income	205,839	207,601	216,717	*224,150*	*243,533*
Depreciation	216,960	233,155	246,093	*263,525*	*287,192*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	30,270	5,288	—	—
Deferred Taxes	196,731	117,353	104,319	*15,000*	*15,000*
Other Non-Cash Adjustments	23,491	20,291	17,492	—	—
(Increase) Decrease in Accounts Receivable	-40,401	-96	32,578	*4,421*	*-40,094*
(Increase) Decrease in Inventory	54,014	27,737	28,417	*66,733*	*-46,399*
Change in Other Short-Term Assets	-3,501	-91,567	-29,066	*-43,689*	—
Increase (Decrease) in Accounts Payable	58,069	23,904	-64,234	*-13,905*	*49,247*
Change in Other Short-Term Liabilities	15,274	14,196	29,313	*12,000*	*12,000*
Cash From Operations	**726,476**	**582,844**	**586,917**	***528,234***	***520,479***
(Capital Expenditures)	-542,636	-622,965	-622,965	*-780,000*	*-710,000*
Net (Acquisitions), Asset Sales, and Disposals	—	—	128,223	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-66	-4,421	-4,625	*-50,000*	*-50,000*
Cash From Investing	**-542,702**	**-627,386**	**-499,367**	***-830,000***	***-760,000***
Common Stock Issuance (or Repurchase)	-92,875	2,497	-16,148	—	—
Common Stock (Dividends)	-124,287	-124,011	-125,796	*-127,858*	*-130,415*
Short-Term Debt Issuance (or Retirement)	54,268	83,306	354,141	*-131*	*500,000*
Long-Term Debt Issuance (or Retirement)	-131	82,217	-257,034	*429,000*	*-109,500*
Other Financing Cash Flows	—	—	—	—	—
Cash From Financing	**-163,025**	**44,009**	**-44,837**	***301,011***	***260,085***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*28,247*	—
Net Change in Cash	**20,749**	**-533**	**42,713**	***27,492***	***20,563***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
44.49 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Atmos Energy Management Meeting: Constructive Regulatory Relationships Drive Growth

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The primary analyst covering this company does not own its stock.

Research as of 06 May 2013
Estimates as of 05 Feb 2013
Pricing data through 03 May 2013
Rating updated as of 03 May 2013

Currency amounts expressed with '$' are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 06 May 2013

During our meeting Monday with Atmos Energy ATO senior executives at the American Gas Association Financial Forum in Naples, Fla., we learned more about the constructive regulatory relationships that continue to drive growth opportunities supporting management's 6%-8% targeted earnings growth and 8%-8.5% rate base growth. The company's regulated operations enjoy a weighted average 10.6% return on equity, significantly above the national average. We are reaffirming our $36 fair value estimate, 2013 earnings per share estimate, narrow moat, and stable moat trend rating.

During the past few years, management has sold fringe assets with comparatively poorer regulatory constructs and is now focused on maximizing internal growth opportunities. Management plans to spend 70% of its planned four-year $3 billion investment plan in Texas, where Rule 8.209 and the state Gas Reliability Infrastructure Program reduce regulatory lag and allow attractive returns on equity.

Management plans to maintain a consistent dividend growth policy and targets 10%-13% total shareholder returns through 2016. The company raised its dividend 1.4% in 2013. Management has continued to opportunistically refinance its capital structure, which now has a weighted average cost of debt below 6.0% with no additional immediate refinance opportunities.

The largest headwind management foresees is regulatory, with the U.S. Department of Transportation's Pipeline Integrity Management rule posing the largest logistical challenge. However, the company doesn't expect significant financial expense from the regulation. Management has confidence that its constructive regulatory jurisdictions will maintain favorable returns on equity despite low interest rates. Low gas prices are helping keep customer bills low,

Vital Statistics

Market Cap (USD Mil)	4,029
52-Week High (USD)	44.85
52-Week Low (USD)	32.10
52-Week Total Return %	40.1
YTD Total Return %	27.7
Last Fiscal Year End	30 Sep 2012
5-Yr Forward Revenue CAGR %	10.2
5-Yr Forward EPS CAGR %	5.8
Price/Fair Value	1.24

Valuation Summary and Forecasts

Fiscal Year:	2011	2012	2013(E)	2014(E)
Price/Earnings	14.0	15.0	*18.1*	*16.7*
EV/EBITDA	0.0	0.0	*0.0*	*0.0*
EV/EBIT	0.0	0.0	*0.0*	*0.0*
Free Cash Flow Yield %	-1,369.3	-1,117.0	*-6,249.6*	*-4,704.5*
Dividend Yield %	4,232.3	NM	*NM*	*NM*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2011	2012	2013(E)	2014(E)
Revenue	4,286,435	3,438,483	*3,373,669*	*3,961,503*
Revenue YoY %	-8.0	-19.8	*-1.9*	*17.4*
EBIT	456,256	451,528	*491,048*	*543,399*
EBIT YoY %	-1.6	-1.0	*8.8*	*10.7*
Net Income, Adjusted	208,949	216,717	*224,150*	*243,533*
Net Income YoY %	10.1	3.7	*3.4*	*8.7*
Diluted EPS	2.31	2.38	*2.46*	*2.67*
Diluted EPS YoY %	12.2	3.1	*3.5*	*8.7*
Free Cash Flow	38,339	190,668	*-221,466*	*-146,147*
Free Cash Flow YoY %	-86.3	397.3	*-216.2*	*-34.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Atmos Energy is one of the largest natural gas-only distributors in the United States, serving more than 3.1 million customers. The company's utility operations serve Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Its nonutility operations market natural gas across a vast U.S. territory and include one of the largest intrastate natural gas pipeline systems in Texas.

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
44.49 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

and management concedes that it could be more difficult to maintain current allowed returns if there were a sharp jump in gas prices.

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
44.49 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2010	2011	2012	Forecast 2013	2014	5-Year Proj. CAGR
Revenue	*-11.6*	-6.2	-8.0	-19.8	*-1.9*	*17.4*	*10.2*
EBIT	*-0.1*	2.4	-1.6	-1.0	*8.8*	*10.7*	*8.5*
EBITDA	*1.4*	1.6	1.3	1.2	*8.2*	*10.1*	*8.2*
Net Income	*3.7*	-2.4	10.1	3.7	*3.4*	*8.7*	*6.0*
Diluted EPS	*3.8*	-3.2	12.2	3.1	*3.5*	*8.7*	*5.8*
Earnings Before Interest, after Tax	*-0.4*	15.2	-12.0	-2.5	*-28.5*	*10.2*	*-0.5*
Free Cash Flow	*-27.7*	-44.7	-86.3	397.3	*-216.2*	*-34.0*	*5.5*

Profitability	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Operating Margin %	*11.2*	10.0	10.6	13.1	*14.6*	*13.7*	*13.2*
EBITDA Margin %	*17.0*	14.6	16.1	20.3	*22.4*	*21.0*	*20.1*
Net Margin %	*5.1*	4.1	4.9	6.3	*6.6*	*6.2*	*5.8*
Free Cash Flow Margin %	*4.1*	6.0	0.9	5.6	*-6.6*	*-3.7*	*-2.2*
ROIC %	*10.2*	11.7	9.8	9.2	*5.9*	*5.9*	*5.9*
Adjusted ROIC %	*11.9*	13.7	11.5	10.6	*6.8*	*6.7*	*6.6*
Return on Assets %	*3.0*	3.1	3.0	2.9	*2.9*	*2.9*	*2.9*
Return on Equity %	*9.4*	9.5	9.4	9.4	*9.3*	*9.6*	*9.7*

Leverage	3-Year Hist. Avg	2010	2011	2012	2013	2014	5-Year Proj. Avg
Debt/Capital	*0.52*	0.51	0.52	0.52	*0.54*	*0.56*	*0.57*
Total Debt/EBITDA	*3.50*	3.37	3.50	3.62	*3.92*	*4.03*	*4.12*
EBITDA/Interest Expense	*4.64*	4.42	4.57	4.94	*5.61*	*5.34*	*5.16*

Valuation Summary and Forecasts

	2011	2012	2013(E)	2014(E)
Price/Fair Value	1.05	1.02	—	—
Price/Earnings	14.0	15.0	*18.1*	*16.7*
EV/EBITDA	0.0	0.0	*0.0*	*0.0*
EV/EBIT	0.0	0.0	*0.0*	*0.0*
Free Cash Flow Yield %	-1,369.3	-1,117.0	*-6,249.6*	*-4,704.5*
Dividend Yield %	4,232.3	NM	*NM*	*NM*

Key Valuation Drivers

Cost of Equity %	8.0
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.9
Long-Run Tax Rate %	38.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	50.0
Perpetuity Year	10

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-370,125	-6.6	-4.06
Present Value Stage II	772,614	13.8	8.47
Present Value Stage III	5,218,146	92.8	57.23
Total Firm Value	**5,620,635**	**100.0**	**61.65**
Cash and Equivalents	64,239	—	0.70
Debt	-2,527,365	—	-27.72
Preferred Stock	—	—	—
Other Adjustments	—	—	—
Equity Value	**3,157,509**	—	**34.63**
Projected Diluted Shares	91,172		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
44.49 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2010	2011	2012	*2013*	*2014*
Revenue	**4,661,060**	**4,286,435**	**3,438,483**	***3,373,669***	***3,961,503***
Cost of Goods Sold	3,346,924	2,985,615	2,114,744	*1,978,116*	*2,461,992*
Gross Profit	**1,314,136**	**1,300,820**	**1,323,739**	***1,395,553***	***1,499,510***
Selling, General & Administrative Expenses	454,621	442,965	453,613	*466,378*	*479,526*
Other Operating Expense (Income)	187,143	177,767	181,073	*188,647*	*215,707*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	208,539	223,832	237,525	*249,479*	*260,878*
Operating Income (ex charges)	**463,833**	**456,256**	**451,528**	***491,048***	***543,399***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	30,270	5,288	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**463,833**	**425,986**	**446,240**	***491,048***	***543,399***
Interest Expense	154,188	150,763	141,174	*134,516*	*155,603*
Interest Income	-591	21,184	-14,644	*5,000*	*5,000*
Pre-Tax Income	**309,054**	**296,407**	**290,422**	***361,532***	***392,796***
Income Tax Expense	119,203	106,819	98,226	*137,382*	*149,262*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	15,988	18,013	24,521	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**205,839**	**207,601**	**216,717**	***224,150***	***243,533***
Weighted Average Diluted Shares Outstanding	92,422	90,652	91,172	*91,146*	*91,146*
Diluted Earnings Per Share	**2.23**	**2.29**	**2.38**	***2.46***	***2.67***
Adjusted Net Income	189,851	208,949	216,717	*224,150*	*243,533*
Diluted Earnings Per Share (Adjusted)	**2.05**	**2.31**	**2.38**	***2.46***	***2.67***
Dividends Per Common Share	1.34	1.37	1.39	*1.40*	*1.43*
EBITDA	**680,793**	**659,141**	**692,333**	***754,573***	***830,590***
Adjusted EBITDA	**680,793**	**689,411**	**697,621**	***754,573***	***830,590***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
44.49 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2010	2011	2012	*2013*	*2014*
Cash and Equivalents	131,952	131,419	64,239	*91,731*	*112,294*
Investments	—	—	—	—	—
Accounts Receivable	273,207	273,303	234,526	*230,105*	*270,199*
Inventory	319,038	289,760	256,415	*189,682*	*236,081*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	150,995	316,471	272,782	*316,471*	*316,471*
Current Assets	**875,192**	**1,010,953**	**827,962**	***827,989***	***935,046***
Net Property Plant, and Equipment	4,793,075	5,147,918	5,475,604	*5,992,079*	*6,414,887*
Goodwill	740,148	740,207	740,207	*740,207*	*740,207*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	355,376	383,793	451,262	*476,262*	*501,262*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**6,763,791**	**7,282,871**	**7,495,035**	***8,036,537***	***8,591,402***
Accounts Payable	266,208	291,205	215,229	*201,324*	*250,570*
Short-Term Debt	486,231	208,830	571,060	*570,929*	*1,070,929*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	413,640	367,563	489,665	*501,665*	*513,665*
Current Liabilities	**1,166,079**	**867,598**	**1,275,954**	***1,273,918***	***1,835,164***
Long-Term Debt	1,809,551	2,206,117	1,956,305	*2,385,305*	*2,275,805*
Deferred Tax Liabilities (Long-Term)	829,128	960,093	1,015,083	*1,030,083*	*1,045,083*
Other Long-Term Operating Liabilities	780,685	993,642	889,090	*864,090*	*839,090*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**4,585,443**	**5,027,450**	**5,136,432**	***5,553,396***	***5,995,142***
Preferred Stock	—	—	—	—	—
Common Stock	451	451	451	*451*	*451*
Additional Paid-in Capital	1,714,364	1,732,935	1,745,467	*1,745,467*	*1,745,467*
Retained Earnings (Deficit)	486,905	570,495	660,932	*757,224*	*870,342*
(Treasury Stock)	—	—	—	—	—
Other Equity	-23,372	-48,460	-48,247	*-20,000*	*-20,000*
Shareholder's Equity	**2,178,348**	**2,255,421**	**2,358,603**	***2,483,142***	***2,596,260***
Minority Interest	—	—	—	—	—
Total Equity	**2,178,348**	**2,255,421**	**2,358,603**	***2,483,142***	***2,596,260***

Atmos Energy Corp ATO (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
44.49 USD	36.00 USD	28.80 USD	45.00 USD	Low	Narrow	Stable	Standard	BBB+	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

	2010	2011	2012	Forecast 2013	Forecast 2014
Net Income	205,839	207,601	216,717	*224,150*	*243,533*
Depreciation	216,960	233,155	246,093	*263,525*	*287,192*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	30,270	5,288	—	—
Deferred Taxes	196,731	117,353	104,319	*15,000*	*15,000*
Other Non-Cash Adjustments	23,491	20,291	17,492	—	—
(Increase) Decrease in Accounts Receivable	-40,401	-96	32,578	*4,421*	*-40,094*
(Increase) Decrease in Inventory	54,014	27,737	28,417	*66,733*	*-46,399*
Change in Other Short-Term Assets	-3,501	-91,567	-29,066	*-43,689*	—
Increase (Decrease) in Accounts Payable	58,069	23,904	-64,234	*-13,905*	*49,247*
Change in Other Short-Term Liabilities	15,274	14,196	29,313	*12,000*	*12,000*
Cash From Operations	**726,476**	**582,844**	**586,917**	***528,234***	***520,479***
(Capital Expenditures)	-542,636	-622,965	-622,965	*-780,000*	*-710,000*
Net (Acquisitions), Asset Sales, and Disposals	—	—	128,223	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-66	-4,421	-4,625	*-50,000*	*-50,000*
Cash From Investing	**-542,702**	**-627,386**	**-499,367**	***-830,000***	***-760,000***
Common Stock Issuance (or Repurchase)	-92,875	2,497	-16,148	—	—
Common Stock (Dividends)	-124,287	-124,011	-125,796	*-127,858*	*-130,415*
Short-Term Debt Issuance (or Retirement)	54,268	83,306	354,141	*-131*	*500,000*
Long-Term Debt Issuance (or Retirement)	-131	82,217	-257,034	*429,000*	*-109,500*
Other Financing Cash Flows	—	—	—	—	—
Cash From Financing	**-163,025**	**44,009**	**-44,837**	***301,011***	***260,085***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	*28,247*	—
Net Change in Cash	**20,749**	**-533**	**42,713**	***27,492***	***20,563***

UBS

Global Equity Research

Americas

Gas Utilities

UBS Investment Research

Atmos Energy

12-month rating	Neutral
	Unchanged
12m price target	US$42.00
	Prior: US$37.00
Price	US$43.62

RIC: ATO.N BBG: ATO US

2 May 2013

Pursuing Fitting Returns Through Rates

■ Shifting Margins Cause Miss

ATO reported 2Q13 EPS of $1.25, below both UBSe of $1.33 and the cons est of $1.31. However, gross profit for the Gas Distribn segment was adversely affected by $25.3MM due to net rate decr, primarily in the Mid-Tex and West Texas divisions, implemented in F'13 that incr customer base charges and reduced consumption charges, thereby shifting margins out of the 1st and 2nd fiscal quarters and into the 3rd and 4th fiscal quarters. Regulated T&S segment gross profit was $61.8MM, up 6.6% from $58.0MM in F2Q'12.

■ Pursuing Rate Relief…

ATO continues to aggressively pursue rate incr in order to earn appropriate returns on invested capital. Mid-Tex and the West Texas division are expected to file a GRIP filing in Spring.'13 with new rates anticipated in 4Q13. A Texas GRIP filing is expected for Mid-Tex and West Texas Environ areas in F3Q, with new rates anticipated in 4Q13. ATO is expected to file a Colorado rate case in Spring '13 to include an infra surcharge with new rates expected in 2Q14.

■ …More on Rate Relief; Guidance Raised; Estimates Increased

ATO is also expected to file a rate case in Kentucky this month with new rates effective in 2Q14. 4Q13 rate activity is expected to include an infra replacement surcharge in Kentucky, a rate case in Kansas, and a stable rate filing in Mississippi. ATO raised F'13 guidance to $2.45-$2.55, from $2.40-$2.50. We are impressed by ATO's strong rate case inventories. Incorporating 1Q results and outlook on ATO's rate base growth, we are raising our EPU est to $2.49/$$2.61/$2.70 from $2.46/$2.57/$2.66 for '13/'14/'15, respectively.

■ Valuation: Raising PT to $42; Maintaining Neutral

Given our outlook on ATO's rate base growth and rolling our DCF/SOP-derived model forward, we are raising our PT to $42 from $37, but maintaining our Neutral rating.

Highlights (US$m)	09/11	09/12	09/13E	09/14E	09/15E
Revenues	4,351.51	3,447.38	5,762.53	7,350.45	7,542.86
EBIT (UBS)	467.60	452.95	512.14	540.09	574.24
Net Income (UBS)	195.33	206.21	227.49	239.83	249.50
EPS (UBS, US$)	2.15	2.26	2.49	2.61	2.70
Net DPS (UBS, US$)	1.36	1.38	1.40	1.42	1.44
Profitability & Valuation	**5-yr hist av.**	**09/12**	**09/13E**	**09/14E**	**09/15E**
EBIT margin %	9.9	13.1	8.9	7.3	7.6
ROIC (EBIT) %	10.3	9.7	10.3	10.1	10.1
EV/EBITDA (core) x	7.2	7.6	8.3	8.0	8.5
PE (UBS) x	13.8	14.8	17.6	16.7	16.1
Net dividend yield %	4.6	4.1	3.2	3.3	3.3

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.
Valuations: based on an average share price that year, (E): based on a share price of US$43.62 on 01 May 2013 19:39 EDT

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Trading data

52-wk range	US$44.37-32.38
Market cap.	US$3.93bn
Shares o/s	90.2m (COM)
Free float	98%
Avg. daily volume ('000)	146
Avg. daily value (m)	US$6.0

Balance sheet data 09/13E

Shareholders' equity	US$2.48bn
P/BV (UBS)	1.6x
Net Cash (debt)	(US$2.69bn)

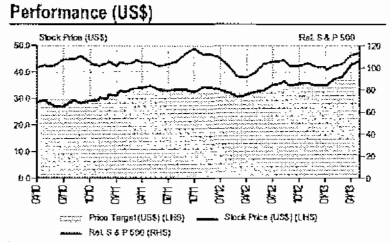
Forecast returns

Forecast price appreciation	-3.7%
Forecast dividend yield	3.2%
Forecast stock return	-0.5%
Market return assumption	5.2%
Forecast excess return	-5.7%

EPS (UBS, US$)

	09/13E			09/12
	From	To	Cons.	Actual
Q1E	0.74	0.74	0.74	0.61
Q2E	1.33	1.25	1.25	1.29
Q3E	0.30	0.38	0.30	0.32
Q4E	0.08	0.11	0.13	0.05
09/13E	2.46	2.49	2.47	
09/14E	2.57	2.61	2.63	

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities LLC
ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2.

■ Atmos Energy

Atmos Energy Corporation, headquartered in Dallas, Texas, primarily provides regulated natural gas distribution and transmission and storage services to approximately 3.2 million residential, commercial, public authority, and industrial customers in 12 states primarily in the South. Non-regulated operations include Marketing & Trading and Pipeline & Storage businesses. Atmos completed its acquisition of TXU Gas in 2004 to become one of the largest pureplay gas distribution companies in the country; Atmos also operates one of the largest intrastate pipelines in Texas.

■ Statement of Risk

Risks to our estimates and price target include mild weather, rising interest rates, unfavorable regulatory decisions, increasing reliance on the Marketing & Trading segment's earnings, increased commodity costs, declines in pipeline throughput volumes related to reduced Barnett Shale drilling activity, and dilutive equity offerings or acquisitions.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	45%	36%
Neutral	Hold/Neutral	45%	36%
Sell	Sell	11%	19%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2013.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
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Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
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KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

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UBS Securities LLC: Ronald J. Barone.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Atmos Energy[2, 4, 6a, 6b, 7, 16, 18]	ATO.N	Neutral	N/A	US$43.62	01 May 2013

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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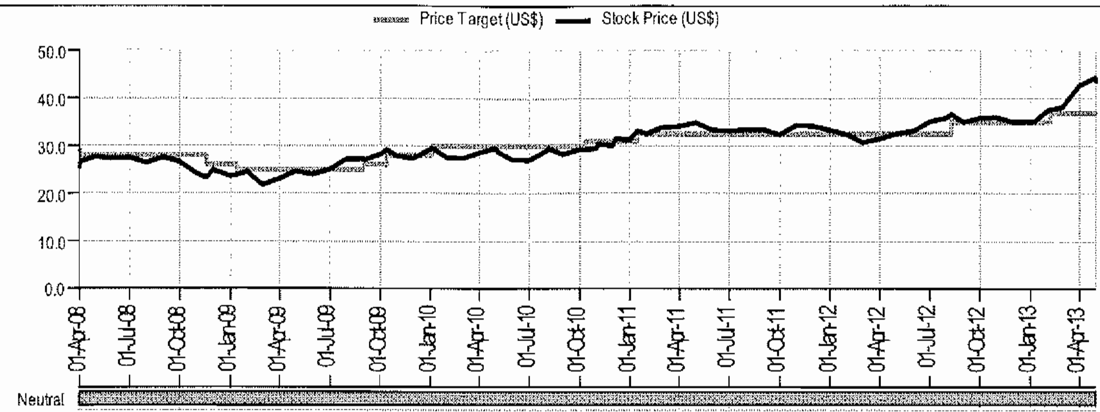
Atmos Energy (US$)



Source: UBS; as of 01 May 2013

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CASE NO. 2013-00148
ATTACHMENT 2
TO OAG DR NO. 1-183

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UBS Investment Research

Atmos Energy

Off to a Strong Start

Global Equity Research

Americas

Gas Utilities

12-month rating	**Neutral** *Unchanged*
12m price target	US$37.00 *Prior: US$35.00*
Price	US$37.58

RIC: ATO.N BBG: ATO US

7 February 2013

■ Results In-Line

ATO reported adj 1Q'13 EPS of $0.74, in-line with our est of $0.74 but below the cons est of $0.77. 1Q'13 EPS were 21% above adj 1Q'12 EPS of $0.61. All segments reported improved results: Natural Gas Distribution operating income, $109.1MM (up from $103.4MM primarily due to an $8.3MM reduction in O&M); Regulated Transmission & Storage operating income, $32.0MM (up from $28.4MM primarily due to increased revenue from the GRIP filing, effective April '12); Nonregulated Operations, $13.8MM (up from $7.7MM due to $6.5MM increase in asset optimization margins).

■ Rate Activity

In December, the Texas Railroad Commission issued a final order in the Mid-Tex Cities case, authorizing a net increase in operating income of $42.6MM ($29.6MM increase in margin & $13.0MM decrease in depreciation), a 10.5%ROE on a 52% equity base and an increase in the customer base charge to 84% of the residential bill (thereby increasing cash flow stability). Other authorized rate activity increases in operating income in 1Q were: West Texas, $6.6MM (Oct); Tennessee, $7.5MM (Nov), Mississippi, $3.4MM (Dec); Louisiana, $2.7MM (Dec). Rate filings in 2Q are expected in Texas (GRIP), Kentucky and Georgia.

■ Guidance Maintained, Estimates Raised

ATO expects F13 EPS to be at the higher end of its previously announced range of $2.40-$2.50. Net income from regulated operations is projected at $211MM-$219MM and nonregulated operations net income is forecast at $9MM-$11MM. We are raising our EPS est to $2.46/$2.57/$2.66, from $2.42/$2.52/$$2.61, for F'13/'145/'15, respectively.

■ Valuation: Maintaining Neutral Rating, Raising Target Price

We are maintaining our Neutral rating but raising our SOP/DCF-derived PT to $37, from $35.

Highlights (US$m)	09/11	09/12	09/13E	09/14E	09/15E
Revenues	4,351.51	3,447.38	3,890.54	4,177.71	4,283.62
EBIT (UBS)	467.60	452.95	487.30	502.47	523.54
Net Income (UBS)	195.33	206.21	224.93	236.09	246.09
EPS (UBS, US$)	2.15	2.26	2.46	2.57	2.66
Net DPS (UBS, US$)	1.36	1.38	1.40	1.42	1.44

Profitability & Valuation	5-yr hist av.	09/12	09/13E	09/14E	09/15E
EBIT margin %	9.9	13.1	12.5	12.0	12.2
ROIC (EBIT) %	10.3	9.7	9.7	9.4	9.3
EV/EBITDA (core) x	7.2	7.6	7.7	7.5	8.2
PE (UBS) x	13.8	14.8	15.3	14.6	14.1
Net dividend yield %	4.6	4.1	3.7	3.8	3.8

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$37.58 on 07 Feb 2013 09:11 EST

Ronald J. Barone
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Trading data

52-wk range	US$37.66-30.60
Market cap.	US$3.39bn
Shares o/s	90.2m (COM)
Free float	98%
Avg. daily volume ('000)	121
Avg. daily value (m)	US$4.3

Balance sheet data 09/13E

Shareholders' equity	US$2.48bn
P/BV (UBS)	1.4x
Net Cash (debt)	(US$2.70bn)

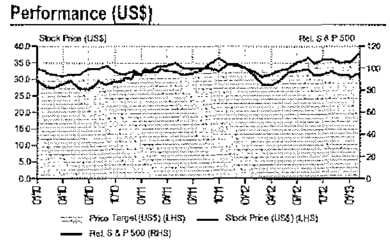
Forecast returns

Forecast price appreciation	-1.5%
Forecast dividend yield	3.7%
Forecast stock return	+2.2%
Market return assumption	5.3%
Forecast excess return	-3.1%

EPS (UBS, US$)

	09/13E			09/12
	From	To	Cons.	Actual
Q1E	0.74	0.74	0.71	0.61
Q2E	1.33	1.36	1.39	1.29
Q3E	0.32	0.31	0.22	0.32
Q4E	0.05	0.05	0.03	0.05
09/13E	2.42	2.46	2.42	
09/14E	2.52	2.57	2.59	

Performance (US$)



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■ Atmos Energy

Atmos Energy Corporation, headquartered in Dallas, Texas, primarily provides regulated natural gas distribution and transmission and storage services to approximately 3.2 million residential, commercial, public authority, and industrial customers in 12 states primarily in the South. Non-regulated operations include Marketing & Trading and Pipeline & Storage businesses. Atmos completed its acquisition of TXU Gas in 2004 to become one of the largest pureplay gas distribution companies in the country; Atmos also operates one of the largest intrastate pipelines in Texas.

■ Statement of Risk

Risks to our estimates and price target include mild weather, rising interest rates, unfavorable regulatory decisions, increasing reliance on the Marketing & Trading segment's earnings, increased commodity costs, declines in pipeline throughput volumes related to reduced Barnett Shale drilling activity, and dilutive equity offerings or acquisitions.

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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Atmos Energy[2, 4, 5, 6a, 6b, 7, 16, 18]	ATO.N	Neutral	N/A	US$37.58	06 Feb 2013

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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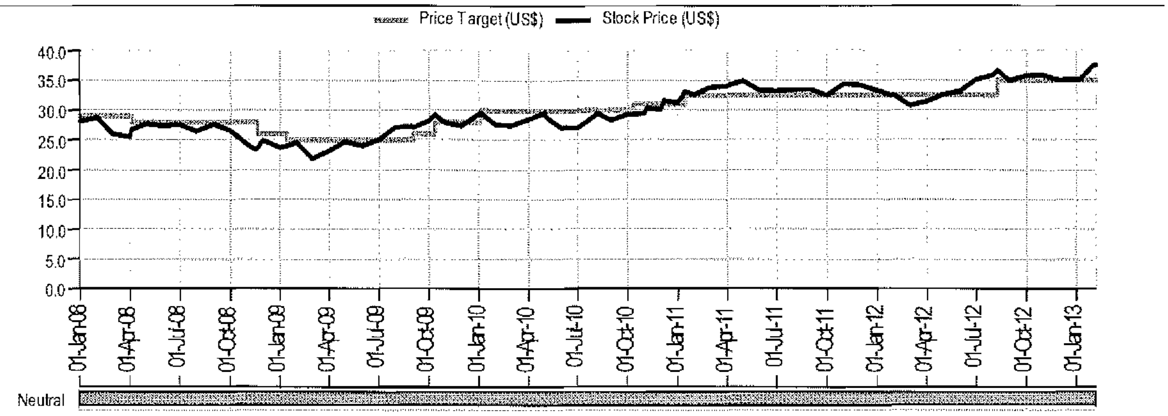
Atmos Energy (US$)



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UBS

REQUEST:

Please provide copies of credit reports for Atmos Energy Corporation and Applicant from the major credit rating agencies (S&P, Moody's, and Fitch) published since January 1, 2011.

RESPONSE:

Please see Attachment 1.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, OAG_1-184_Att1 - Rating Agencies Credit Reports.pdf, 80 Pages.

Respondent: Greg Waller

Atmos PR Possible Upgrade – Moody's 2011-03-31

MOODY'S
INVESTORS SERVICE

Announcement: Moody's reviews Atmos Energy for possible upgrade

Global Credit Research - 31 Mar 2011

Over $2 billion of debt affected

New York, March 31, 2011 -- Moody's Investors Service placed under review for possible upgrade the long-term debt ratings of Atmos Energy Corporation (Atmos, Baa2 senior unsecured). The company's Prime-2 commercial paper rating is not affected.

RATINGS RATIONALE

The rating review acknowledges some sustained favorable factors, including a continuing series of rate increases which have resulted in a steady improvement in credit metrics, and the recent exit from the unregulated gas storage development business.

A key factor in the determination of a possible upgrade will be the resolution of a credit facility renewal in May 2011. Also relevant will be the outcome of the Atmos Pipeline rate case due in April 2011.

"Atmos Energy's continued rate increases, as well as its improving credit metrics and business risk profile, are positive factors supporting a possible upgrade," said Moody's vice president Mihoko Manabe.

The company's liquidity resources will be an important factor in the rating review. Over the past year, Atmos has been implementing a series of planned steps to renew its credit facilities. Atmos is currently in the midst of renewing Atmos Energy Corporation's $767 million of credit facilities that expire this year and is planning to replace them with a $750 million 5-year facility over the next few months.

Also important in the rating review will be the satisfactory resolution of the Atmos Pipeline rate case, which we expect to be concluded in April 2011. With a requested amount of $35.3 million, this is the largest of the pending rate cases for 2011.

In fiscal 2010, Atmos was approved $58 million in annual rate increases, 59% of which were from routine annual rate filings, capital investment recovery mechanisms, and surcharges. Compared to periodic base rate cases, recovery from such routine annual rate filings can be more timely and more certain. The company's regulatory activity continues apace with about $24 million of rate relief granted so far this year and $37 million additional on file. This amount of rate relief appears in line with the approximately $50-60 million of rate increases a year that Atmos has obtained in recent years and expects to receive on an annual basis.

A series of rate increases has contributed to a steady improvement in Atmos's credit metrics over the past few years. After Moody's standard adjustments, fiscal 2010 cash flow from operations pre-working capital-to-debt (CF pre-WC) was 27.4%. CF pre-WC plus interest-to-interest was 5.3 times. These credit metrics are strong relative to similarly-rated gas distribution companies. Moody's had previously indicated that sustainable CF pre-WC/Debt above 20% and CF pre-WC+Interest/Interest in the mid-4 times range might move Atmos's rating up. Moody's noted that the 2010 metrics reflected nonrecurring increases in cash flow from bonus depreciation and a one-time change in accounting for repairs.

In the rating review, Moody's will assess whether the company can sustain those ratio levels over the long term, without those temporary effects.

The company recently made its final exit from the midstream business by writing off its investment in the Fort Necessity salt-dome natural gas storage project. Although Atmos took a noncash charge on this investment, Moody's views it as a positive event , marking the end of the gas storage development business which Moody's views as a higher risk activity.

Moody's most recent rating action on Atmos Energy was on March 19, 2010, when the rating was affirmed with a positive outlook.

The principal methodology used in rating Atmos is Moody's Regulated Electric and Gas Utilities methodology published in August 2009.

Headquartered in Dallas, Texas, Atmos Energy Corporation engages in the distribution, transmission, and marketing of natural gas.

On Review for Possible Upgrade:

..Issuer: Atmos Energy Corporation

....Multiple Seniority Shelf, Placed on Review for Possible Upgrade, currently a range of (P)Baa3 to (P)Baa2

....Multiple Seniority Shelf, Placed on Review for Possible Upgrade, currently a range of (P)Baa3 to (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently Baa2

Outlook Actions:

..Issuer: Atmos Energy Corporation

....Outlook, Changed To Rating Under Review From Positive

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investor Service's information.

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Atmos_Credit_Opinion_Moody's_2013

Moody's
INVESTORS SERVICE

Credit Opinion: Atmos Energy Corporation

Global Credit Research - 10 May 2013

Dallas, Texas, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Baa1
Bkd Commercial Paper	P-2

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Opinion

Rating Drivers

- Diverse and generally supportive regulation

- Low business risk operations

- Consistent and solid financial performance

Corporate Profile

Atmos Energy Corporation (Atmos; Baa1 senior unsecured, stable outlook) is primarily engaged in regulated natural gas distribution in eight states (Texas, Louisiana, Mississippi, Kentucky, Tennessee, Kansas, Colorado and Virginia) and transmission and storage in Texas. Atmos has an intermediate holding company Atmos Energy Holdings, Inc. (AEH) that owns non-utility subsidiaries engaged principally in gas marketing, housed at its Atmos Energy Marketing, LLC (AEM) subsidiary, as well as minor pipeline and storage operations in Louisiana and Kentucky.

In April 2013, Atmos completed the sale of its natural gas distribution assets located in Georgia, representing about 64,000 customers, for approximately $141 million.

SUMMARY RATING RATIONALE

Atmos' ratings are supported by the low risk of its rate-regulated gas distribution utilities in generally constructive regulatory jurisdictions, strong operating history, solid credit metrics, and a conservative management approach. Gas marketing is the riskiest element of the company, but it is expected to remain a small part of Atmos.

DETAILED RATING CONSIDERATIONS

DIVERSE AND GENERALLY SUPPORTIVE REGULATION

With distribution and pipeline operations in eight states, Atmos has jurisdictional diversity that reduces its exposure to any one adverse regulatory decision or warmer-than-normal weather in any of its service territories. It does have some asset concentration in Texas (60% of customer meters) with their next largest service areas being in Louisiana (11%) and Mississippi (9%). The regulatory frameworks in these states are credit-supportive, with Texas and Louisiana utilities generally scored as Baa in Factor 1 under Moody's regulated utilities rating methodology and Mississippi scored as A. Further regulatory diversity results from the many municipalities that hold original jurisdictions in Texas as well as separate ratemaking for pipelines in Texas and Louisiana.

Atmos has been successful in increasing and stabilizing its regulated margins through rate increases and rate design improvements. Given its disparate operations and rising costs, regulatory lag is an issue that Atmos addresses through numerous and continual rate activity including regular rate adjustments, outside of base rate cases, for small amounts spread over its many jurisdictions. Such mechanisms increase the certainty of obtaining some timely rate relief while reducing the company's exposure to an adverse rate decision. However, Atmos needs many such small increases to affect margins materially. Over the last three years, about 33% of these operating income increases from rate activity have come from infrastructure programs, such as the Gas Reliability Infrastructure Program (GRIP) in Texas, which allows Atmos to recover capital investments made in the prior year without a rate case. In addition, the company has obtained rate design changes that mitigate earnings volatility from weather and lower consumption (covering over 90% of its meters) and bad debts (covering over two thirds of its meters).

LOW RISK BUSINESS OPERATIONS

Being predominantly regulated, Atmos has low business risk with core rate-regulated gas distribution in numerous states accounting for approximately 69% of 2012 net income. With only moderately higher risk, Atmos' pipeline business accounts for approximately 29% of 2012 net income. Atmos unregulated businesses are not of significant scale, contributing approximately 2% of 2012 net income.

Gas marketing is Atmos' riskiest business segment being exposed to commodity price, basis, counterparty, and other risks which makes it difficult to predict its financial results with a high degree of accuracy. As a management strategy, Atmos has been de-emphasizing its unregulated operations in light of the weak medium-term outlook. In particular, AEM's asset optimization business has been suffering from reduced sales volumes as arbitrage opportunities on AEM's assets have dissipated in the current market environment. The drop in asset optimization profits has caused AEM's overall earnings to decline significantly in the last few years, and we do not anticipate a turnaround anytime soon. We have assumed very little earnings from this business.

CONSISTENT, SOLID FINANCIAL PERFORMANCE

Over the years, Atmos has been accruing sufficient rate increases to sustain a modest but steady improvement in its credit metrics. During its fiscal year ended September 30, 2012, Atmos received approval for $31 million in annual rate increases. As of December 31, 2012, Atmos has received about $64 million in rate relief and had $7 million of pending rate requests. Of the $64 million received in rate relief, $56.7 million came from three completed rate cases and $3.6 million from infrastructure programs.

Atmos' baseline cash flow from operations before working capital changes (CFO pre-WC) is in the low $600 million range ($621 million in the last twelve months ended December 2012), up from the $612 million in fiscal year 2012. Atmos's credit metrics currently map to the low A, high Baa range under Moody's regulated utilities rating grid. CFO pre-WC-to-debt is at or above 20% (23.5% in fiscal year 2012, 20.8% in the 12 months ended December 2012). CFO pre-WC plus interest-to-interest has remained in the high 4 times range (4.9x in both fiscal 2012 and the 12 months ended December 2012).

Liquidity Profile

Atmos' liquidity is considered adequate in the near term. Factors in our liquidity analysis include:

Cash - At December 31, 2012, cash on hand was $125 million.

Internal Cash Flow - Atmos had capital spending of $768 million and dividends of $126 million for the twelve months ended December 31, 2012. With cash from operations of $632 million for the same time period, Atmos was reliant upon other sources of financing for approximately $262 million.

External Liquidity - In December 2012, Atmos amended the terms of their $750 million unsecured credit facility to increase the borrowing capacity to $950 million, with an accordion feature, which, if utilized, would increase the borrowing capacity to $1.2 billion. Atmos also has a $25 million unsecured facility and a $14 million revolving credit facility. In total Atmos had $570.9 million outstanding under its credit facilities at December 31, 2012. Atmos must maintain a debt to total capitalization ratio below 70% in order to borrow under this facility and was in compliance (55%) at December 31, 2012.

In December 2012, AEM terminated its committed $200 million facility and replaced it with two $25 million credit facilities, one of which is committed. These facilities will be used primarily to issue letters of credit. The amount available under these two facilities was $40 million at December 31, 2012.

Next Debt Maturity - Atmos has $500 million due in 2014.

Rating Outlook

The stable outlook is based on Atmos's low-risk, regulated activities that produce consistent financial performance and the expectation that the company will continue to maintain adequate liquidity resources. The outlook also assumes that the credit metrics will be sustained around current levels (for example, CFO pre-WC-to-debt in the low 20% range).

What Could Change the Rating - Up

The rating could be upgraded if the company were to demonstrate a sustained improvement in its credit metrics (for example, with CFO pre-WC-to-debt in the mid 20% range) while reducing exposure to unregulated activities.

What Could Change the Rating - Down

A sustained weakening in Atmos' credit metrics (including CFO pre-WC-to-debt in the high teens) could cause the rating to be downgraded. In addition, M&A activity that results in higher financial and business risks could also negatively affect the rating.

Rating Factors

Atmos Energy Corporation

Regulated Electric and Gas Utilities Industry [1][2]	**LTM 12/31/2012**		**Moody's 12-18 month Forward View* As of May 2013**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)		N/A		N/A
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.9x	A	4.5x-5.5x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	20.8%	Baa	19%-24%	Baa / A
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	16.7%	Baa	14%-18%	Baa / A
e) Debt/Capitalization (3 Year Avg) (7.5%)	47.5%	Baa	45%-49%	Baa
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT

INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2012; Source: Moody's Financial Metrics

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ATO Corporate Credit Rating - SP 2011-03-29

STANDARD
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Global Credit Portal
RatingsDirect

March 29, 2011

Atmos Energy Corp.

Primary Credit Analyst:
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Table Of Contents

Atmos Energy Corp.

Major Rating Factors

Corporate Credit Rating
BBB+/Stable/A-2

Strengths:

- A low-risk monopoly gas distribution and pipeline business.
- A supportive regulatory environment.
- A large, stable residential and commercial customer base.
- Geographic and regulatory diversity provided by regulated operations in 12 states.

Weaknesses:

- A significant financial risk profile characterized by high leverage and weak cash flow measures.
- Higher business risks, volatile cash flow, and increased working capital requirements associated with sizable nonregulated operations.
- A history of pursuing sizable acquisitions.

Rationale

Standard & Poor's rating on Dallas, Texas-based Atmos Energy Corp. (Atmos) reflects our assessment of the company's business risk profile as excellent and its financial risk profile as significant. The rating is based on the consolidated business and financial risk of the company, including the nonregulated operations. The rating balances the strong cash flow generated by the regulated gas distribution and pipeline operations (expected to be about 80% to 85% of consolidated net income in 2011) with the more volatile cash flows that natural gas marketing operations contribute.

Key credit factors include favorable regulatory oversight; the company's position as one of the largest natural gas local distribution companies in the U.S., with operations in 12 states (although about 60% of total customers are in Texas); and the low operating risks of its regulated utilities. A large residential customer base, lack of competition in the company's regulated service territories, and high barriers to entry provided by the capital-intensive nature of the distribution network also support the business risk profile. Atmos's financial risk profile, which has high leverage and weak cash flow metrics; its investment in higher-risk, nonregulated operations; and its history of pursuing sizable acquisitions somewhat temper the company's strengths.

The company generally maintains constructive relationships with the utility commissions in the states where it operates, which results in stable revenues and cash flow. Cash flows also benefit from a favorable regulatory environment, including coverage of more than 90% of its customers by weather-normalization clauses. In several jurisdictions, Atmos also benefits from revenue stabilization mechanisms (similar to decoupling) and fuel-adjustment clauses, which serve to further stabilize cash flows.

The company's regulated transmission and storage segment (which we expect to provide about 20% of net income in 2011) transports natural gas to Atmos's Mid-Tex division, transports natural gas for third parties, and manages underground storage reservoirs in Texas. This is a strategic asset, as it supplies gas to a substantial proportion of Atmos's distribution network and provides access to natural gas from several basins in Texas, which have substantial reserves. We expect this segment to generate relatively stable cash flow.

Standard & Poor's Ratings Services regards the Atmos Energy Marketing LLC (AEM) segment as the company's riskiest. Operating primarily in the Midwest and southeastern U.S., AEM purchases natural gas and related transportation and storage needs for its customers. In addition, this segment uses financial instruments to hedge purchases of natural gas and benefits from the seasonal spread in natural gas prices. Volatile natural gas prices can create profit opportunities for AEM, but such profits are not recurring in nature. In current market conditions, we expect this segment to generate relatively modest cash flows. The AEM segment can also create significant swings in cash-posting requirements related to hedging, and requires stringent risk management oversight.

Our assessment of Atmos's financial risk profile as significant reflects the company's stable regulated cash flows and relatively high leverage, and the volatility associated with its nonregulated marketing operations. Notwithstanding the volatility associated with AEM's financial performance, bondholder protection measures have improved since the fiscal 2005 acquisition of TXU Gas and are currently adequate for the rating. As of Dec. 31, 2010, funds from operations (FFO) to total debt was about 24%, and FFO interest coverage was 4.5x, continuing a gradually improving trend. Bonus depreciation, which results in low cash taxes paid, also helped the cash flow in 2010. In future years, we expect this benefit to be less meaningful. As of Dec. 31, 2010, total debt, adjusted for capitalized operating leases and tax-effected pension and postretirement obligations, was about $2.6 billion, with adjusted debt to capital of about 53%.

Short-term credit factors

The short-term rating on Atmos is 'A-2'. However, we currently deem Atmos's liquidity to be less than adequate under Standard & Poor's corporate liquidity methodology (see "Methodology and Assumptions: Standard & Poor's Standardizes Liquidity Descriptors for Global Corporate Issuers," published July 2, 2010), which categorizes liquidity in five standard descriptors: exceptional, strong, adequate, less than adequate, and weak. Our conclusion primarily reflects the maturities of Atmos's credit facilities in 2011. When the company renews the facilities in the coming months, we expect to revise its liquidity descriptor to at least adequate.

Over the next twelve months, the company's FFO will be its largest liquidity source. We expect it to be about $630 million, in line with what the company reported in 2010. Atmos also maintained a modest cash balance of about $129 million as of Dec. 31, 2010. Additionally, AEM has a three-year $200 million credit facility. However, only $112 million is available on its facility due to the covenants. It is important to note that, per our criteria, we did not include approximately $540 million in unused credit facilities that are available to Atmos but which are scheduled to expire within the next 12 months.

Our assumptions for projected uses of cash include maintenance and significant discretionary capital expenditures in the $330 million to $360 million range in 2011, debt maturities of about $600 million, and shareholder distributions of $125 million. Atmos must occasionally post collateral related to derivative transactions, although these amounts have been relatively modest in recent years. Finally, working capital can swing widely during the year as the company purchases natural gas in advance of the heating season. However, working capital needs tend to peak in the winter and are hence already captured in short-term borrowings as of Dec. 31.

Outlook

The stable outlook on Atmos reflects our expectation that the company will maintain its current level of financial performance, with adjusted FFO to total debt of 20% to 25% and interest coverage above 4x, coupled with continued satisfactory management of its working capital and liquidity needs. We could revise the outlook to negative if we expect that adjusted FFO to total debt will fall below 20% or if the company does not address its coming debt maturities in a timely manner. An outlook revision to positive would require a sustained FFO to total debt in the upper 20% range, or a reduction in the company's business risks.

Related Criteria And Research

- "Criteria: Key Credit Factors: Business And Financial Risks In the Investor-Owned Utilities Industry" published Nov. 26, 2008
- "Key Credit Factors For U.S. Natural Gas Distributors," published Feb. 28, 2006

Table 1

Atmos Energy Corp. -- Peer Comparison

Industry Sector: Gas

	Atmos Energy Corp.	AGL Resources Inc.	South Jersey Industries Inc.	Sempra Energy	Vectren Corp.
Rating as of March 29, 2011	BBB+/Stable/A-2	A-/Watch Neg/A-2	NR	BBB+/Stable/A-2	A-/Stable/--
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	5,660.03	2,496.67	910.83	9,289.00	2,234.37
Net income from continuing operations	192.38	224.33	67.36	990.33	131.93
Funds from operations (FFO)	570.81	505.31	149.01	2,050.85	447.87
Capital expenditures	522.28	450.32	118.96	2,033.83	364.98
Debt	2,489.33	2,537.69	683.23	11,142.54	1,976.18
Equity	2,135.87	1,779.67	543.70	9,011.67	1,412.50
Adjusted ratios					
Operating income (before D&A)/revenues (%)	12.50	26.81	18.84	24.09	22.96
EBIT interest coverage (x)	2.81	4.09	5.19	3.00	2.95
EBITDA interest coverage (x)	4.11	5.41	6.49	4.87	4.82
Return on capital (%)	9.49	10.25	10.06	8.57	8.36
FFO/debt (%)	22.93	19.91	21.81	18.41	22.66
Debt/EBITDA (x)	3.50	3.86	3.94	3.91	3.86

*Fully adjusted (including postretirement obligations). D&A--Depreciation and amortization.

Table 2

Atmos Energy Corp. -- Financial Summary

Industry Sector: Gas

	--Fiscal year ended Sep. 30--				
	2010	**2009**	**2008**	**2007**	**2006**
Rating history	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Positive/A-2	BBB/Positive/A-2	BBB/Stable/A-2
(Mil. $)					
Revenues	4,789.69	4,969.08	7,221.31	5,898.43	6,152.36
Net income from continuing operations	205.84	190.98	180.33	168.49	147.74
Funds from operations (FFO)	630.74	547.89	533.81	481.94	472.19
Capital expenditures	554.22	530.02	482.59	397.46	441.58
Cash and short-term investments	131.95	111.20	46.72	60.73	111.46
Debt	2,471.64	2,564.88	2,431.49	2,414.02	2,481.12
Preferred stock	0.00	0.00	0.00	0.00	0.00
Equity	2,178.35	2,176.76	2,052.49	1,965.75	1,583.41
Debt and equity	4,649.98	4,741.64	4,483.98	4,379.78	4,064.53
Adjusted ratios					
EBIT interest coverage (x)	2.93	2.63	2.88	2.68	2.69
FFO interest coverage (x)	4.48	3.91	4.24	3.84	3.87
FFO/debt (%)	25.52	21.36	21.95	19.96	19.03
Discretionary cash flow/debt (%)	1.44	10.54	(9.82)	1.18	(9.72)
Net cash flow/capital expenditures (%)	91.38	80.46	86.31	93.16	83.77
Debt/debt and equity (%)	53.15	54.09	54.23	55.12	61.04
Return on common equity (%)	9.27	8.80	8.83	9.16	8.87
Common dividend payout ratio (unadjusted) (%)	60.38	63.60	65.04	66.27	69.23

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Atmos Energy Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

	--Fiscal year ended Sep. 30, 2010--							
Atmos Energy Corp. reported amounts								
	Debt	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	2,295.78	706.40	706.40	489.44	154.47	726.48	726.48	542.64
Standard & Poor's adjustments								
Operating leases	147.67	18.00	8.68	8.68	8.68	9.33	9.33	15.48
Postretirement benefit obligations	230.85	21.38	21.38	21.38	10.43	(15.24)	(15.24)	--
Accrued interest not included in reported debt	42.90	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	3.90	(3.90)	(3.90)	(3.90)
Share-based compensation expense	--	--	12.66	--	--	--	--	--

Table 3

Reconciliation Of Atmos Energy Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)								
Asset retirement obligations	7.43	--	--	--	--	(2.47)	(2.47)	--
Reclassification of nonoperating income (expenses)	--	--	--	(0.34)	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	(83.46)	--
Short-term debt adjustments related to regulated gas inventories	(253.00)	--	--	--	--	--	--	--
Total adjustments	175.85	39.38	42.71	29.71	23.00	(12.28)	(95.74)	11.58

Standard & Poor's adjusted amounts

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	2,471.64	745.77	749.10	519.15	177.47	714.19	630.74	554.22

*Atmos Energy Corp. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization.

Ratings Detail (As Of [illegible])	
Atmos Energy Corp.	
Corporate Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (8 Issues)	BBB+
Corporate Credit Ratings History	
23-Dec-2008	BBB+/Stable/A-2
11-Jun-2007	BBB/Positive/A-2
30-Sep-2004	BBB/Stable/A-2
Business Risk Profile	Excellent
Financial Risk Profile	Significant

Debt Maturities

As of Dec. 31, 2010:
2011: $360.1 mil.
2012: $2.4 mil.
2013: $250.1 mil.
2014: none
2015: $500.0 mil.
Thereafter: $1.06 bil.

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

ATO Corporate Credit Rating Summary - SP 2011-09-29

STANDARD
&POOR'S

Global Credit Portal
RatingsDirect

September 29, 2011

Summary:
Atmos Energy Corp.

Primary Credit Analyst:
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Secondary Credit Analyst:
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Table Of Contents

Summary:

Atmos Energy Corp.

Credit Rating: BBB+/Stable/A-2

Rationale

Standard & Poor's Ratings Services' rating on Dallas, Texas-based gas utility Atmos Energy Corp. reflects our assessment of the company's business risk profile as excellent and its financial risk profile as significant. We base the rating on the company's consolidated business and financial risk, including the nonregulated operations. The rating balances the strong cash flow coming from the regulated gas distribution and pipeline operations (expected to be about 80% to 85% of consolidated net income in 2011) with the more volatile cash flows that natural gas marketing operations contribute.

Key credit factors include favorable regulatory oversight; the company's position as one of the largest natural gas local distribution companies in the U.S., with operations in 12 states (although about 60% of total customers are in Texas); and the low operating risks of its regulated utilities. A large residential customer base, lack of competition in the company's regulated service territories, and high barriers to entry provided by the capital-intensive nature of the distribution network also support the business risk profile. Atmos's financial risk profile, which has high leverage and weak cash flow metrics; its investment in higher-risk, nonregulated operations; and its history of pursuing sizable acquisitions somewhat temper the company's strengths.

The company generally maintains constructive relationships with the utility commissions in the states where it operates, which results in stable revenues and cash flow. Cash flows also benefit from a favorable regulatory environment, including coverage of more than 90% of its customers by weather-normalization clauses. In several jurisdictions, Atmos also benefits from revenue-stabilization mechanisms (similar to decoupling) and fuel-adjustment clauses, which serve to further stabilize cash flows. We expect the company's announcement that it will sell gas distribution assets in Missouri, Illinois, and Iowa to have minimal impact on overall cash flows because this sale represents less than 3% of Atmos's three million customers.

The company's regulated transmission and storage segment (which we expect to provide about 20% of net income in 2011) transports natural gas to Atmos's Mid-Tex division, transports natural gas for third parties, and manages underground storage reservoirs in Texas. This is a strategic asset because it supplies gas to a substantial proportion of Atmos's distribution network and provides access to natural gas from several basins in Texas, which have substantial reserves. We expect this segment to generate relatively stable cash flow.

Standard & Poor's regards the Atmos Energy Marketing LLC (AEM) segment as the company's riskiest. Operating primarily in the Midwest and southeastern U.S., AEM purchases natural gas and related transportation and storage needs for its customers. In addition, this segment uses financial instruments to hedge purchases of natural gas and benefits from the seasonal spread in natural gas prices. Volatile natural gas prices can create profit opportunities for AEM, but such profits are not recurring in nature. In current market conditions, we expect this segment to generate relatively modest cash flows. The AEM segment can also create significant swings in cash-posting requirements related to hedging, and requires stringent risk-management oversight.

Our assessment of Atmos's financial risk profile as significant reflects the company's stable regulated cash flows, relatively high leverage, and the volatility associated with its nonregulated marketing operations. Notwithstanding the volatility associated with AEM's financial performance, bondholder protection measures have improved since the fiscal 2005 acquisition of TXU Gas and are currently adequate for the rating. As of June 30, 2011, funds from operations (FFO) to total debt was about 25%, and FFO interest coverage was 4.9x, in line with recent quarters. Bonus depreciation, which results in low cash taxes paid, also helped the cash flow in 2010. In future years, we expect this benefit to be less meaningful and FFO to total debt could be between 20% and 25% by year-end 2012. As of June 30, 2011, total debt, adjusted for capitalized operating leases and tax-effected pension and postretirement obligations, was about $2.6 billion, with adjusted debt to capital of about 53%. The company recently declared a share-repurchase program. Given the size of the program and assuming the company will finance these from excess cash flows, we don't anticipate any significant effect on key credit metrics.

Liquidity

The short-term rating on Atmos is 'A-2'. We currently deem Atmos's liquidity to be adequate under Standard & Poor's corporate liquidity methodology (see "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," published Sept. 28, 2011), which categorizes liquidity in five standard descriptors: exceptional, strong, adequate, less than adequate, and weak. Our conclusion primarily reflects the maturities of Atmos's credit facilities in 2011. When the company renews the facilities in the coming months, we expect to revise its liquidity descriptor to at least adequate.

Over the next 12 months, the company's FFO will be its largest liquidity source. We expect it to be about $650 million for 2011, slightly higher than last year's figures. Atmos has all of the $750 million revolver available for future borrowings. In addition, AEM has a three-year $200 million credit facility. However, only $125 million is available on the AEM facility due to the covenants.

Our assumptions for projected uses of cash include maintenance and significant discretionary capital spending of $330 million to $360 million and total capital spending of about $600 million in 2011. We estimated shareholder distributions of about $125 million and debt maturies of about $250 million the next 12 months. Atmos must occasionally post collateral related to derivative transactions, although these amounts have been relatively modest in recent years. Finally, working capital can swing widely during the year as the company purchases natural gas in advance of the heating season. Working capital needs tend to peak in the winter; however, the company has adequate liquidity to meet those needs.

There is significant covenant headroom under Atmos's debt agreements, with total debt to capital (as defined) of 51% as of June 30, 2011, compared with the requirement to maintain leverage below 70%. The credit facility expires in May 2016.

Outlook

The stable outlook on Atmos reflects our expectation that the company will maintain its current level of financial performance, with adjusted FFO to total debt of 20% to 25% and interest coverage above 4x, coupled with continued satisfactory management of its working capital and liquidity needs. We could revise the outlook to negative if we expect that adjusted FFO to total debt will fall below 20% or if the company does not address its coming debt maturities in a timely manner. An outlook revision to positive would require a sustained FFO to total debt in the upper 20% range, or a reduction in the company's business risks.

Related Criteria And Research

- Criteria: Key Credit Factors: Business And Financial Risks In the Investor-Owned Utilities Industry, Nov. 26, 2008
- Key Credit Factors For U.S. Natural Gas Distributors, Feb. 28, 2006

ATO Credit Opinion – Moody's 2011-05-12

MOODY'S
INVESTORS SERVICE

Credit Opinion: Atmos Energy Corporation

Global Credit Research - 12 May 2011

Dallas, Texas, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Baa1
Subordinate Shelf	(P)Baa2
Bkd Commercial Paper	P-2

Contacts

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Opinion

Rating Drivers

- Successful ongoing rate activity in constructive regulatory jurisdictions

- Stable rate-regulated operations

- Low-risk management strategy focused on regulated activities

- Sustained strength in financial performance

Corporate Profile

Atmos Energy Corporation (Atmos or AEC; Baa1 senior unsecured) is primarily engaged in regulated natural gas distribution in twelve states (Texas, Louisiana, Mississippi, Kentucky, Tennessee, Kansas, Colorado, Georgia, Illinois, Missouri, Virginia, and Iowa) and transmission and storage in Texas. Atmos has an intermediate holding company Atmos Energy Holdings, Inc. (AEH) that owns non-utility subsidiaries engaged principally in gas marketing, housed at its Atmos Energy Marketing, LLC (AEM) subsidiary, as well as minor pipeline and storage operations in Louisiana and Kentucky.

Recent Events

On May 11, 2011, Moody's upgraded Atmos's senior unsecured credit rating to Baa1 from Baa2.The upgrade follows Atmos' recent renewal of its core credit facility and a favorable Atmos Pipeline Texas rate order.

SUMMARY RATING RATIONALE

Atmos's ratings are supported by the low risk of its rate-regulated gas distribution utilities in generally constructive regulatory jurisdictions, a good record as a gas distributor, reasonable leverage, and a conservative management approach. The $1.9 billion acquisition of TXU Gas (now known as Mid-Tex) at the start of Atmos's fiscal year ended September 30, 2005 was a transforming event that doubled its size but leveraged its balance sheet. Since then, the company's credit quality has been improving through equity issuances, rate increases, and rate design improvements. Gas marketing is the riskiest element of the company, but it is expected to remain a minor part of Atmos.

DETAILED RATING CONSIDERATIONS

- Successful ongoing rate activity in constructive regulatory jurisdictions

With distribution and pipeline operations in twelve states, Atmos has jurisdictional diversity that reduces its exposure to any one adverse regulatory decision or warmer-than-normal weather in any of its service territories. It does have some asset concentration in Texas (58% of customer meters). Next largest service areas are Louisiana (11% of meters) and Mississippi (8%). The regulatory frameworks in these states are credit-supportive, with Texas and Louisiana utilities generally scored as Baa in Factor 1 under Moody's regulated utilities rating methodology and Mississippi scored as A. Further regulatory diversity results from the many municipalities that hold original jurisdictions in Texas as well as separate ratemaking for pipelines in Texas and Louisiana.

Atmos has been successful in increasing and stabilizing its regulated margins through rate increases and rate design improvements. Given its disparate operations and rising costs, regulatory lag is an issue that Atmos addresses through numerous and continual rate activity. In the five years between fiscal 2006 and 2010, Atmos increased weather-normalized annualized utility operating income by roughly 40%. Much of this increase came from regular rate adjustments, outside of base rate cases, for small amounts spread over twelve jurisdictions. Such mechanisms increase the certainty of obtaining some timely rate relief while reducing the company's exposure to an adverse rate decision.

However, Atmos needs many such small increases to affect margins materially. Over the last five years, about 40% of these operating income increases has come from the Gas Reliability Infrastructure Program (GRIP) filings in Texas, which allows Atmos to recover capital investments made the prior year without a rate case. In addition, the company has obtained rate design changes that mitigate earnings volatility from weather and lower consumption (covering over 90% of its meters) and bad debts (covering two-thirds of its meters).

In late April 2011, Atmos Pipeline-Texas concluded a base rate case, as it is required to do every five years as part of the GRIP program. This intrastate pipeline division received a favorable outcome from the Texas Railroad Commission in the rate order, with a net operating income increase of $20 million (roughly a 20% increase from its 2010 operating income of $97 million), effective May 1, 2011. In addition, the allowed return on equity (ROE) was increased to 11.8% from 10%, an ROE that is more typical for a FERC-regulated pipeline than for a utility. Some new revenue-stabilizing features implemented in the order include a straight fixed variable rate design and a rider that adjusts for fluctuations in industrial sales.

- Stable rate-regulated operations

AEC currently has a relatively low exposure to unregulated businesses, which Moody's considers to have a higher business risk generally than regulated businesses. AEC operates mostly on the low end of the business risk spectrum, with core rate-regulated distribution in twelve states and a tariff-based pipeline in Texas (mostly serving its affiliate Mid-Tex) accounting for 77% and 8%, respectively, of consolidated 2010 gross profit. Of medium risk are the less predictable market-driven profits that the regulated and unregulated pipelines earn from providing transportation and ancillary services (6% of gross profit), mostly to third parties. AEM operates on the high end of the business risk spectrum. AEM's delivered gas (a bundled gas service provided to longstanding utility, municipal, and industrial customers) has posted fairly consistent gross profits over the last few years (4% of gross profit) and accounts for the majority of AEM's base earnings. Asset optimization, unrealized margins, and other unregulated businesses (storage, gathering, power) make up a small but the riskiest portion of gross profit (4% in 2010).

AEM is exposed to commodity price, basis, counterparty, and other risks, which makes it difficult to predict its financial results with a high degree of accuracy. AEM's financial results are also a function of natural gas prices and volumes due to market conditions that vary with weather and industrial demand. Unrealized gains and losses related to mark-to-market accounting for hedges also contribute to volatility in AEM's reported earnings. Although AEM has been consistently profitable, reported values do not clearly capture the market's effect on cash flow and liquidity, such as the collateral received from or delivered to counterparties.

- Low-risk management strategy focused on regulated activities

Atmos has a good long track record of acquiring and integrating gas distribution businesses. With the exception of the uncharacteristically large Mid-Tex acquisition, most transactions have been modestly sized and privately negotiated. Although Atmos has not made an acquisition since, acquiring LDCs remains a part of its long-term growth strategy. Atmos is likely to favor bolt-on acquisitions in familiar, more favorable jurisdictions. While Moody's will review any such transaction on a case-by-case basis, the current rating takes into account the importance of maintaining an investment grade rating in Atmos' financial policy.

During the last few years, Atmos made a few small investments in unregulated gas gathering and storage ventures as a new area for growth. The company has since abandoned this strategy, recently writing off its $19 million pre-tax investment in the Fort Necessity salt-dome natural gas storage project, its largest and last midstream venture. Moody's considers Atmos's renewed focus on lower risk regulated business as a credit-positive development.

- Sustained strength in financial performance

Over the years, Atmos has been accruing sufficient rate increases to sustain a modest but steady improvement in its credit metrics. In its fiscal ended September 30, 2010, Atmos was approved for $58 million in annual rate increases, 59% of which were from routine annual rate filings, capital investment recovery mechanisms, and surcharges. Compared to periodic base rate cases, recovery from such routine annual rate filings can be more timely and more certain. The company's regulatory activity continues apace with about $45 million of rate relief granted so far this fiscal year, including the $20 million recently awarded in the Atmos Pipeline Texas rate case. Additionally, $26 million of rate requests have been filed and are pending a resolution. This amount of rate relief is in line with the approximately $50-60 million of rate increases a year that Atmos has obtained in recent years and expects to receive on an annual basis going forward.

Moody's assesses Atmos's base-line cash flow from operations before working capital changes (CF pre-WC) to be in the mid to upper $500 million range as seen in fiscal years 2008 and 2009. Recent cash flow has been sharply higher ($722 million in fiscal year 2010, $798 million in the last twelve months ended March 2011 mostly due to a one-time change in accounting for repairs in fiscal 2010 as well as bonus depreciation. Bonus depreciation is expected to benefit cash flows through fiscal 2013, after which cash flow is expected to return to more normal levels, comparable to those achieved prior to 2010.

Atmos's credit metrics currently map to an A under Moody's regulated utilities rating grid. After Moody's standard adjustments, the debt-to-capital ratio was 43% at March 31, 2011. CF pre-WC-to-debt has steadily increased to above 20% (32% in 12 months ended March 31, 2011 compared to 22.3% in 2009). A payout ratio of about 60% normally results in CF pre-WC minus dividends-to-debt in the mid to high teens before the impact of bonus depreciation. CF pre-WC plus interest-to-interest has remained solidly in the 4 times range before the impact of bonus depreciation (5.8 times in the 12 months ended March 31, 2011; 4.4 times in fiscal year 2009).

Liquidity Profile

Atmos has adequate liquidity to meet its near term cash needs. As it is not unusual for a utility, Atmos is often in a negative free cash flow position, with the second quarter ended March 31, 2011 the exception. For the last four quarters ended March 31, 2011, cash flow from operations was $681 million, higher than its normal run-rate in the mid to upper $500 million range, but covering its 2011 capital budget of $580-$595 million. The company's dividend is currently $124 million a year.

AEC's next material long-term debt maturity is on May 15, 2011, when $350 million of senior notes come due. The company plans to refinance this debt by issuing $300 million in 30-year notes in June 2011. After that, the next debt maturity is $250 million in January 2013.

Atmos recently renewed its five-year credit facility with a $750 million committed facility, expiring May 2, 2016, with an accordion feature for borrowing up to $1 billion. Atmos' renewal of this credit facility was an important consideration in its recent ratings upgrade. The sole financial covenant under Atmos's base revolver is a maximum debt-to-capitalization ratio of 70%. AEC has adequate headroom, with that ratio at 54% around the seasonal peak on December 31, 2010 and a ratio of 50% on March 31, 2011. AEC also has a committed $25 million 364-day revolving credit facility with a local bank, which expires on March 31, 2012.

AEC's commercial paper program is fully backed by the $750 million five-year facility. Commercial paper outstanding around the seasonal peak has been just under $300 million, well within AEC's commercial paper program size. Typically, it has no short-term debt outstanding by the end of the March quarter.

AEM has a committed $200 million three-year facility with an accordion feature to $500 million, that matures on December 8, 2013. This facility is unconditionally guaranteed by AEH. The effective availability under the facility is a range of $100 to $200 million, or up to $500 million with the accordion feature, based on a borrowing base determined by tangible net worth and net working capital, and the value of the collateral. AEM was in compliance with the maximum liabilities-to-net worth covenant of 5 times (1.4 times at March 31, 2011) and minimum net working capital and net tangible net worth of $20 to $40 million, or up to $100 million if the accordion feature is utilized, (working capital of $138 million and net worth of $151 million at March 31, 2011).

Atmos maintains separate liquidity facilities for AEC, AEH, and AEM. AEC extends an uncommitted credit line of $350 million to AEH. Conversely, AEH provides a $350 million line to AEC.

Rating Outlook

The stable outlook reflects Atmos's consistent financial performance, adequate liquidity position, and management's strategy focused on low-risk regulated activities. The rating assumes credit metrics at sustainable levels above 20% and CF pre-W/C plus interest-to-interest in the mid 4 times range.

What Could Change the Rating - Up

The rating could be upgraded if the company were to demonstrate a sustained improvement in its credit metrics, with CF pre-WC-to-debt in the mid 20% range and CF pre-WC plus interest-to-interest in the high 4 times range.

What Could Change the Rating - Down

A sustained weakening in Atmos' credit metrics (including CF pre-WC-to-debt in the high teens and CF pre-WC plus interest-to-interest around 4 times) could cause the rating to be downgraded. In addition, M&A activity that results in higher financial and business risks could also negatively affect the rating.

Rating Factors

Atmos Energy Corporation

Regulated Electric and Gas Utilities [1][2]	LTM Mar-31-2011		Moody's 12-18 month Forward View As of May 12, 2011*	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory framework		Baa		Baa
Factor 2: Ability to Recover Cost and Earn Returns (25%)				
a) Ability to recover Cost and Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position		A		A
b) Generation and Fuel Diversity		-		-
Factor 4: Financial Strength, Liquidity, & Metrics (40%)				
a) Liquidity		A		A
b) CFO (pre w/c) + Interest / Interest	5.8x	A	4.2x-5.2x	Baa
c) CFO (pre w/c) / Debt	31.9%	Aa	17%-25%	Baa
d) CFO (pre w/c) - Dividends / Debt	27.0%	Aa	13%-20%	Baa
e) Debt / Capitalization	43.3%	A	43%-50%	Baa
Rating:				
Indicated Rating from Grid		A3		Baa1
Actual Rating Assigned		Baa1		Baa1

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2010; Source: Moody's Financial Metrics

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ATO Credit Opinion – Moody's 2012-05-08

MOODY'S
INVESTORS SERVICE

Credit Opinion: Atmos Energy Corporation

Global Credit Research - 08 May 2012

Dallas, Texas, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Baa1
Subordinate Shelf	(P)Baa2
Bkd Commercial Paper	P-2

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Opinion

Rating Drivers

- Successful ongoing rate activity in constructive regulatory jurisdictions

- Stable rate-regulated operations

- Sustained strength in financial performance

Corporate Profile

Atmos Energy Corporation (Atmos or AEC; Baa1 senior unsecured) is primarily engaged in regulated natural gas distribution in twelve states (Texas, Louisiana, Mississippi, Kentucky, Tennessee, Kansas, Colorado, Georgia, Illinois, Missouri, Virginia, and Iowa) and transmission and storage in Texas. Atmos has an intermediate holding company Atmos Energy Holdings, Inc. (AEH) that owns non-utility subsidiaries engaged principally in gas marketing, housed at its Atmos Energy Marketing, LLC (AEM) subsidiary, as well as minor pipeline and storage operations in Louisiana and Kentucky.

By year-end September 2012, Atmos will sell its natural gas distribution operations in Missouri, Illinois and Iowa, three service areas where it has limited operations. The sale is credit-positive in generating $124 million in proceeds, which the company can use toward its active capital program and reduce the amount of debt it would otherwise have to incur. Meanwhile, earnings reduction from the sale will be modest, since the company will lose only a small number of customers.

SUMMARY RATING RATIONALE

Atmos's ratings are supported by the low risk of its rate-regulated gas distribution utilities in generally constructive regulatory jurisdictions, a good record as a gas distributor, reasonable leverage, and a conservative management approach. Gas marketing is the riskiest element of the company, but it is expected to be a small, shrinking part of Atmos.

DETAILED RATING CONSIDERATIONS

- Successful ongoing rate activity in constructive regulatory jurisdictions

With distribution and pipeline operations in twelve states, Atmos has jurisdictional diversity that reduces its exposure to any one adverse regulatory decision or warmer-than-normal weather in any of its service territories. It does have some asset concentration in Texas (59% of customer meters). Next largest service areas are Louisiana (11% of meters) and Mississippi (9%). The regulatory frameworks in these states are credit-supportive, with Texas and Louisiana utilities generally scored as Baa in Factor 1 under Moody's regulated utilities rating methodology and Mississippi scored as A. Further regulatory diversity results from the many municipalities that hold original jurisdictions in Texas as well as separate ratemaking for pipelines in Texas and Louisiana.

Atmos has been successful in increasing and stabilizing its regulated margins through rate increases and rate design improvements. Given its disparate operations and rising costs, regulatory lag is an issue that Atmos addresses through numerous and continual rate activity, including regular rate adjustments, outside of base rate cases, for small amounts spread over its many jurisdictions. Such mechanisms increase the certainty of obtaining some timely rate relief while reducing the company's exposure to an adverse rate decision. However, Atmos needs many such small increases to affect margins materially. Over the last four years, about 20% of these operating income increases from rate activity has come from the Gas Reliability Infrastructure Program (GRIP) filings in Texas, which allows Atmos to recover capital investments made the prior year without a rate case. In addition, the company has obtained rate design changes that mitigate earnings volatility from weather and lower consumption (covering over 90% of its meters) and bad debts (covering over two thirds of its meters).

- Stable rate-regulated operations

Being predominantly regulated, AEC has low business risk, with core rate-regulated distribution in numerous states and a tariff-based pipeline in Texas (mostly serving its affiliate Mid-Tex) accounting for 79% and 9%, respectively, of consolidated 2011 gross profit. Of medium risk are the less predictable market-driven profits that the regulated and unregulated pipelines earn from providing transportation and ancillary services (12% of gross profit), mostly to third parties.

Gas marketing is Atmos's riskiest business, being exposed to commodity price, basis, counterparty, and other risks, which makes it difficult to predict its financial results with a high degree of accuracy. As a management strategy, AEC has been de-emphasizing unregulated operations in light of their weak medium-term outlook. In particular, AEM's asset optimization business has been suffering from reduced sales volumes as arbitrage opportunities on AEM's assets have dissipated in the current market environment. The drop in asset optimization profits has caused AEM's overall earnings to decline significantly in the last few quarters, and we do not anticipate a turnaround anytime soon. We have assumed very little earnings from this business.

By contrast, AEM's delivered gas business (a bundled gas service provided to longstanding utility, municipal, and industrial customers) has remained fairly consistent (4% of gross profit) and accounts for the vast majority of AEM's earnings.

- Sustained strength in financial performance

Over the years, Atmos has been accruing sufficient rate increases to sustain a modest but steady improvement in its credit metrics. In its fiscal year ended September 30, 2011, Atmos was approved for $72 million in annual rate increases (about 6% of the previous year's regulated gross profit). So far in fiscal 2012, Atmos has received about $23 million in rate relief and has pending some $69 million of rate requests.

Atmos's baseline cash flow from operations before working capital changes (CFO pre-WC) is in the low $600 million range ($621 million in the last twelve months ended March 2012), down from the $722 million in fiscal year 2010, which was boosted by a one-time change in accounting for repairs as well as bonus depreciation. Atmos's credit metrics currently map to the low A, high Baa range under Moody's regulated utilities rating grid. CFO pre-WC-to-debt is at or above 20% (22.6% in fiscal year 2011, 22.2% in the 12 months ended March 2012). CFO pre-WC plus interest-to-interest has remained in the high 4 times range (4.8x in both fiscal 2011 and the 12 months ended March 2012).

Liquidity Profile

Atmos will have adequate near-term liquidity assuming normal market conditions. As it is not unusual for a utility, Atmos is often in a negative free cash flow position. For the last four quarters ended March 31, 2012, cash flow from operations was $505 million with capital expenditures of $687 million and dividends of $125 million, resulting in negative free cash flow of $307 million. Additionally, AEC's has $250 million of senior notes coming due in January 2013, which we assume the company will be able to refinance with $350 million of notes as it plans.

Atmos has a $750 million committed facility, expiring on May 2, 2016, with an accordion feature for borrowing up to $1 billion. This facility sets a maximum debt-to-capitalization ratio at 70%, under which AEC has adequate headroom (52% at March 31, 2012). AEC also has a committed $25 million 364-day revolving credit facility with a local bank, which expires on March 31, 2013.

AEC's Prime-2 rated commercial paper program is fully backed by the above-mentioned $750 million credit facility. The value of this backup in case of an unforeseen market disruption, however, is weakened by the agreement's requirement for at least one day's notice prior to funding.

AEM has a committed $200 million three-year facility with an accordion feature to $500 million, that matures in December 2013. As of March 2012, Atmos had $82 million available under this credit facility. This facility is unconditionally guaranteed by AEH. The effective availability under the facility is a range of $100 to $200 million based on a borrowing base determined by tangible net worth, net working capital, and the value of the collateral. Availability will be limited also if AEC's ratings were to fall to Baa3 and below. AEM was in compliance with the maximum liabilities-to-net worth covenant of 5 times (0.97 times at March 31, 2012) and minimum net working capital and net tangible net worth of $20 to $40 million (working capital of $106 million and net worth of $143 million at March 31, 2012).

Atmos maintains separate liquidity facilities for AEC, AEH, and AEM. AEC extends an uncommitted credit line of $500 million to AEH. Conversely, AEH provides a $500 million line to AEC.

Rating Outlook

The stable outlook is based on Atmos's low-risk, regulated activities that produce consistent financial performance and is subject to the company maintaining adequate liquidity resources. The rating assumes credit metrics sustained around current levels (for example, CFO pre-WC-to-debt in the low 20% range).

What Could Change the Rating - Up

The rating could be upgraded if the company were to demonstrate a sustained improvement in its credit metrics (for example, with CFO pre-WC-to-debt in the mid 20% range) while reducing exposure to unregulated activities and further strengthening its liquidity arrangements.

What Could Change the Rating - Down

A sustained weakening in Atmos' credit metrics (including CFO pre-WC-to-debt in the high teens) could cause the rating to be downgraded. In addition, M&A activity that results in higher financial and business risks could also negatively affect the rating.

Rating Factors

Atmos Energy Corporation

Regulated Electric and Gas Utilities [1][2]	**Last 12 months ended Mar 31, 2012**			**Moody's 12-18 month Forward View As of May 9, 2012***	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**		**Measure**	**Score**
a) Regulatory framework		Baa			Baa
Factor 2: Ability to Recover Cost and Earn Returns (25%)					
a) Ability to recover Cost and Earn Returns		Baa			Baa
Factor 3: Diversification (10%)					

a) Market Position		A		A
b) Generation and Fuel Diversity		-		-
Factor 4: Financial Strength, Liquidity, & Metrics (40%)				
a) Liquidity		Baa		Baa
b) CFO (pre w/c) + Interest / Interest	4.8x	A	4.5x-5.5x	A
c) CFO (pre w/c) / Debt	22.2%	A	19%-24%	Baa
d) CFO (pre w/c) - Dividends / Debt	17.7%	A	14%-20%	Baa
e) Debt / Capitalization	45.0%	A	43%-48%	A
Rating:				
Indicated Rating from Grid		Baa1		Baa1
Actual Rating Assigned		Baa1		Baa1

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] Source: Moody's Financial Metrics

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ATO Full Rating Report - Fitch 2012-01-13

Atmos Energy Corporation

Full Rating Report

Ratings

Long-Term IDR	BBB+
Short-Term IDR	F2
Senior Unsecured	A–
Commercial Paper	F2

IDR – Issuer default rating.

Rating Outlook

Stable

Financial Data

($ Mil.)	2011	2010
Revenues	4,347	4,790
Operating EBITDA	718	722
FFO	607	640
Capital Spending	621	539
Total Debt	2,567	2,424
EBITDA Interest Coverage (x)	3.97	3.97
FFO Interest Coverage (x)	4.75	4.86
Debt/EBITDA (x)	3.58	3.36
FFO/Debt (%)	23.65	26.40
Total Debt/Total Capitalization (%)	53.24	52.67

Related Research

2012 Outlook: Utilities, Power, and Gas, Dec. 5, 2011

EEI 2011 Wrap-Up Report: Crosscurrents, Nov. 15, 2011

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Key Rating Drivers

Constructive Regulatory Environment: The ratings of Atmos Energy Corporation (Atmos) are supported by a constructive regulatory environment in its 12-state, multijurisdictional service territory. Atmos has been able to implement several regulatory mechanisms in recent years, including annual ratemaking, purchased gas cost adjustments, and weather normalization, across many of its jurisdictions.

Stable Cash Flows: Atmos' efforts to reduce regulatory lag have provided some stability to cash flows and strengthened the company's credit quality. Fitch Ratings expects Atmos' consolidated financial metrics to remain solid, with EBITDA-to-interest expense coverage to average more than 4.0x, debt to EBITDA to average around 3.6x, and FFO to debt to remain greater than 22% over the next three years.

Emphasis on Regulated Operations: Management has been able to achieve steady growth in Atmos' regulated distribution and transmission and storage businesses, while pursuing greater long-term growth from the company's nonregulated operations. Fitch expects the regulated operations to average more than 80% of consolidated adjusted earnings over the long-term, although this level should remain higher than that in the near term given weak market conditions that have been affecting the nonregulated operations.

Volatility at Nonregulated Operations: Atmos Energy Holdings, Inc. (AEH) and its wholly owned subsidiary, Atmos Energy Marketing, LLC (AEM), are responsible for the majority of Atmos' nonregulated earnings. These nonregulated gathering, storage, transportation, and supply-management operations exhibit greater earnings volatility than the regulated operations due to their exposure to natural gas prices and the supply and demand effects on market conditions. Physical hedges and few net open positions help mitigate some of these risks.

Low Basis Differentials: A prolonged period of low basis differentials has negatively affected Atmos' transportation and storage business during the past two years, and likely will continue to affect it in 2012. However, Atmos stands to benefit when natural gas market fundamentals improve due to its strong market position in Texas, and its access to the major Texas hubs of Waha, Katy, and Carthage via its nearly 6,000-mile intrastate pipeline and associated storage assets.

What Could Trigger a Rating Action

Potential Positive Factors: The elimination of Atmos' nonregulated operations, which Fitch considers unlikely, along with continued strong performance of the regulated distribution and transmission and storage businesses could result in a positive rating action.

Potential Negative Factors: A significant increase in the size or risk of Atmos' nonregulated operations, or a large or heavily debt-financed acquisition could result in a negative rating action.

Regulatory Overview

Atmos' natural gas distribution segment comprises six natural gas distribution divisions (Mid-Tex, Kentucky/Mid-States, Louisiana, West Texas, Mississippi, and Colorado-Kansas) that are regulated by various state or local public utility authorities. Fitch considers Atmos' regulatory environment to be constructive, enabling the utility to earn a reasonable return in a relatively timely manner.

The state of Texas, in which nearly 60% of Atmos' distribution customers are located, has a relatively decentralized regulatory approach. The governing body of each municipality has original jurisdiction over all rates, operations, and services within its city limits. The Railroad Commission of Texas (RRC) has exclusive appellate jurisdiction over all rate and regulatory orders and ordinances of the municipalities, and exclusive original jurisdiction over rates and services to customers not located within the limits of a municipality. Atmos' natural gas distribution jurisdictions within Texas have authorized returns on equity (ROE) that range from 9.6% to 10.4%.

The eight other states in which Atmos will have a continuing presence in natural gas distribution are regulated by each state's public service commission. The authorized ROEs in these states range from 9.5% to 10.8%.

Atmos' regulated transmission and storage segment, which is exclusively located within Texas and consists of a large intrastate pipeline system and related storage assets, is subject to regulation by the RRC. The authorized ROE for these operations is 11.8%.

Regulatory Mechanisms Stabilize Cash Flows

In recent years, Atmos has been able to implement rate designs that have reduced regulatory lag and helped decouple gross margin from customer usage patterns. These cash flow-stabilizing regulatory mechanisms include annual ratemaking, timely capital cost recovery, purchased gas cost adjustments, and weather normalization.

Annual ratemaking mechanisms are in place in Louisiana, Mississippi, and most of Atmos' Texas service territory that allow for the annual recovery of both capex and operating and maintenance (O&M) expenses. These mechanisms provide for an annual rate review and adjustment to rates without the need to file a formal rate case, covering 73% of Atmos' natural gas distribution gross margin.

The gas reliability infrastructure program (GRIP) in Texas allows Atmos to include in rates annually approved capex incurred in the prior calendar year without the need to file a formal rate case. The GRIP applies to Atmos' natural gas distribution customers in Texas not located within the limits of a municipality. Similar mechanisms have been enacted in Atmos' service territories in Georgia, Missouri, and Kentucky. The accelerated recovery of capital from GRIP and other similar mechanisms covers an additional 11% of Atmos' natural gas distribution gross margin. Additionally, 100% of capex in Atmos' regulated transmission and storage segment are recoverable through GRIP.

Purchased gas cost adjustment mechanisms provide a dollar-for-dollar offset to increases or decreases in natural gas distribution purchased gas costs without the need to file a rate case. Some jurisdictions also have performance-based ratemaking adjustments to provide incentives to minimize purchased gas costs through improved storage management and the use of hedges to lock in gas costs. Trackers cover the gas cost portion of customer bad-debt expense

Related Criteria

Corporate Rating Methodology, Aug. 12, 2011

Rating North American Utilities, Power, Gas, and Water Companies, May 16, 2011 in most of Atmos' Texas service territory and in several other states, covering 73% of Atmos' natural gas distribution gross margin.

Atmos has been able to implement weather normalization adjustment (WNA) mechanisms in eight states, covering 94% of the natural gas distribution segment's residential and commercial customer gross margin. WNA mechanisms lessen the effect of abnormal weather, adding further certainty to cash flows.

Obtaining the aforementioned regulatory mechanisms has been a key focus of management, and Atmos has been effective in improving the regulatory environment throughout its multistate distribution service territory. These efforts have led to organic growth in rate base, which when combined with careful oversight of O&M expenses and a manageable capital spending program, has improved the company's financial profile over the past few years.

Liquidity

Liquidity is adequate, primarily supported by Atmos' $750 million commercial paper program, which is backed up by a five-year, $750 million revolving credit facility that matures on May 2, 2016. The facility has an accordion feature that allows for an increase in borrowing capacity to $1 billion, although Fitch considers the current size of the facility to be sufficient to meet Atmos' liquidity needs given the moderate size of Atmos' capex program.

Atmos also has a 365-day, $25 million revolving credit facility that matures on April 1, 2012, and a $10 million revolving credit facility that provides for the issuance of letters of credit (LOC). The $750 million facility had $206.4 million of CP outstanding as of Sept. 30, 2011, while the $25 million facility had full availability, and the $10 million facility had $5.9 million of LOC issued.

AEM has its own three-year, $200 million revolving credit facility, which matures on Dec. 8, 2013. AEM's operations could require a significant amount of liquidity if natural gas prices were to increase, but Fitch considers AEM's revolving credit facility, with the ability to increase borrowing capacity to $500 million pending lender approval, adequate to meet future needs. AEM had no borrowings and $20.2 million of LOC issued as of Sept. 30, 2011.

Liquidity Summary

($ Mil., As of Sept. 30, 2011)	Amount
Cash and Cash Equivalents	131.4
Unused Third-Party Revolving Credit Facilities	702.5
Total Available Liquidity	**833.9**

Source: Company reports, Fitch analysis.

In addition to these third-party facilities, there are three intercompany credit facilities that simulate a money pool and allow for the efficient management of cash among Atmos, AEH, and AEM. AEH serves as the intermediary between Atmos and AEM with respect to these facilities, allowing for up to $500 million to be borrowed from or lent to Atmos, and for up to $500 million to be lent to AEM. These facilities are renewed annually at calendar year end. Atmos had $181.3 million drawn from its intercompany facility with AEH as of Sept. 30, 2011.

Debt Maturities

Atmos has a manageable near-term debt maturity schedule, with its $250 million, 5.125% notes maturing on Jan. 15, 2013, and its $500 million, 4.95% notes maturing on Oct. 15, 2014, the only significant notes maturing before 2017. Atmos also has rental property sinking fund term notes that are paid down $131,000 per year through 2013.

Fitch expects Atmos to maintain good access to the public debt and equity markets to fund its debt refinancing and capital spending needs.

Scheduled Debt Maturities

($ Mil., As of Sept. 30, 2011)

Fiscal Year	Amount	% of Total
2012	2.4	0
2013	250.2	11
2014	0.0	0
2015	500.0	23
2016	—	0
Thereafter	1,460.0	66
Total	**2,212.6**	**100**

Source: Company reports, Fitch analysis.

Capital Structure

Debt Structure

Atmos had $2.21 billion of bonds outstanding as of Sept. 30, 2011, all of which are unsecured. Of that amount, $2.05 billion are senior notes with various maturity dates, $150 million are debentures due July 15, 2028, $10 million are medium-term notes due Dec. 15, 2025, and $0.3 million are rental property term notes that mature in annual installments through 2013. The remaining $2.3 million were other notes that matured in December 2011.

Capitalization Structure

($ Mil., As of Sept. 30, 2011)	Amount	% of Total Debt	% of Capital	EBITDA (x)
Unsecured Senior Notes	2,050.0	85	44	2.93
Unsecured Debentures	150.0	6	3	0.21
Unsecured Medium-Term Notes	10.0	0	0	0.01
Other Unsecured Notes	2.3	0	0	0.00
Rental Property Term Notes	0.3	0	0	0.00
Total Long-Term Debt	**2,212.6**	**91**	**47**	**3.17**
Minus: Unamortized Discounts	(4.0)			
Total Long-Term Debt (Less Discounts)	**2,208.6**			
CP and Revolver Debt	206.4	9	5	0.30
Total Debt	**2,415.0**	100	52	3.46
Shareholders' Equity	2,255.4		48	
Total Book Capitalization	**4,670.4**		100	
2011 EBITDA				**699.0**

CP – Commercial paper.
Source: Company reports, Fitch analysis.

Lease-Equivalent Debt

Atmos has long-term, noncancelable operating leases for office and warehouse space used in its operations. Consolidated lease and rental expense for fiscal year-end 2011, 2010, and 2009 were $19.1 million, $16.0 million, and $13.6 million, respectively.

Fitch calculates a debt equivalent using 8x the latest full fiscal year's rental expense. This calculation resulted in $153 million being added to Atmos' adjusted long-term debt for 2011 and in each year of the financial projections.

Company Description

Atmos is one of the largest natural gas-only distributors in the U.S., currently serving more than three million natural gas distribution customers in 12 states, primarily in the South. The company's natural gas distribution segment has accounted for 67% of consolidated operating income on average over the past three years, excluding asset impairments.

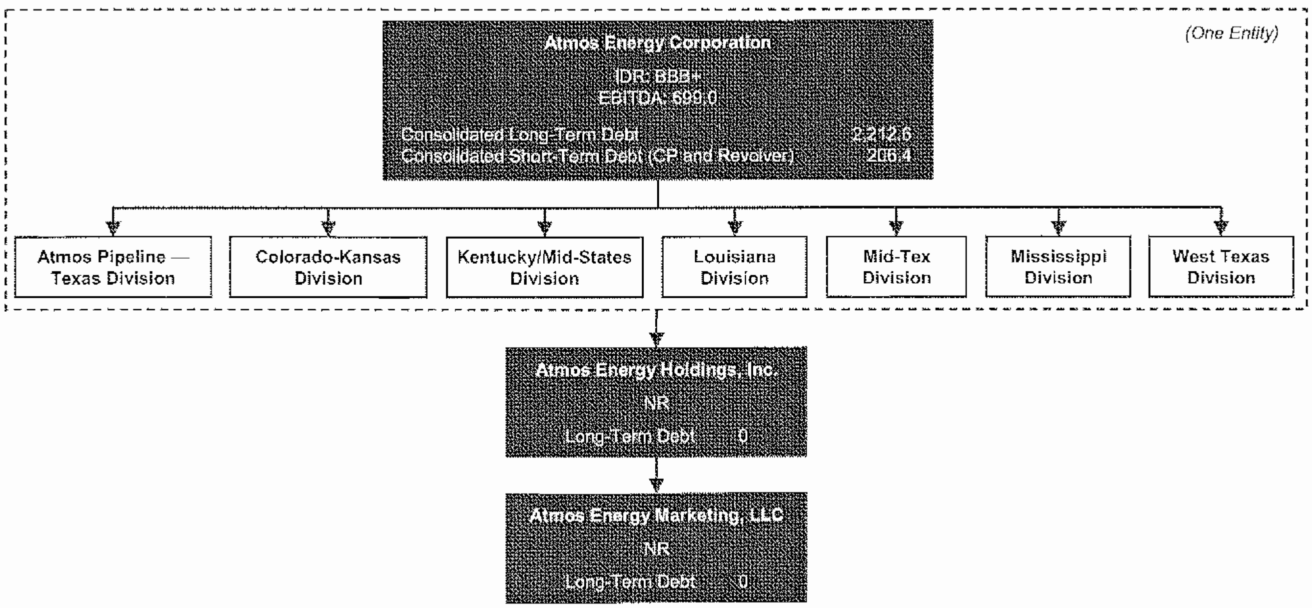
Atmos announced in May 2011 the intended sale of its natural gas distribution operations in Missouri, Illinois, and Iowa, for $124 million to Liberty Energy (Midstates) Corporation, an affiliate of Algonquin Power & Utilities Corp. (not rated by Fitch). These operations are relatively small, accounting for fewer than 84,000 customers in aggregate, less than 3% of Atmos' total natural gas distribution customer count. Following the sale, which is expected to close in fiscal 2012, the footprint of Atmos' natural gas distribution business will be reduced to nine states. The company should benefit from fewer regulatory filings and a focus on Atmos' core geographical areas of operation.

Atmos has regulated natural gas pipeline and storage assets, including a nearly 6,000-mile intrastate natural gas pipeline system in Texas. The company's regulated transmission and storage segment has accounted for 21% of consolidated operating income on average over the past three years, excluding asset impairments.

Atmos' nonregulated operations include transmission and storage assets, and AEM's natural gas marketing and procurement services to customers primarily located in the Midwest and Southeast. The company's nonregulated segment has accounted for 12% of consolidated operating income on average over the past three years, excluding asset impairments.

Organizational and Debt Structure

($ Mil., Pro Forma As of Sept. 30, 2011)



IDR – Issuer default rating. CP – Commercial Paper. NR – Not rated.
Source: Company reports, Fitch analysis.

Financial Summary — Atmos Energy Corp.

($ Mil., Fiscal Years Ended Sept. 30)	2011	2010	2009	2008	2007
Fundamental Ratios (x)					
FFO/Interest Expense	4.7	4.9	4.4	4.3	4.0
CFO/Interest Expense	4.6	5.4	6.5	3.5	4.6
FFO/Debt (%)	23.6	26.4	23.9	19.1	19.1
Operating EBIT/Interest Expense	3.0	3.0	2.8	2.9	2.7
Operating EBITDA/Interest Expense	4.4	4.3	4.1	4.3	4.0
Operating EBITDAR/ (Interest Expense + Rent)	4.0	4.0	3.8	4.0	3.8
Debt/Operating EBITDA	3.6	3.4	3.4	4.0	3.9
Common Dividend Payout (%)	59.6	60.2	63.4	65.0	66.7
Internal Cash/Capex (%)	73.6	111.1	157.3	53.5	111.1
Capex/Depreciation (%)	274.4	250.2	234.6	236.0	197.0
Profitability					
Adjusted Revenues	4,347	4,790	4,969	7,221	5,898
Net Revenues	1,327	1,365	1,347	1,321	1,250
Operating and Maintenance Expense	449	468	495	500	463
Operating EBITDA	718	722	683	642	615
Depreciation and Amortization Expense	227	217	217	200	199
Operating EBIT	481	497	459	435	410
Gross Interest Expense	162	166	165	148	153
Net Income for Common	208	206	191	180	168
Operating Maintenance Expense % of Net Revenues	33.8	34.3	36.7	37.9	37.0
Operating EBIT % of Net Revenues	36.2	36.4	34.1	32.9	32.8
Cash Flow					
Cash Flow from Operations	581	723	914	368	544
Change in Working Capital	(26)	83	352	(127)	90
Funds from Operations	607	640	562	495	454
Dividends	(124)	(124)	(121)	(117)	(112)
Capital Expenditures	(623)	(543)	(509)	(472)	(392)
FCF	(164)	60	289	(218)	43
Net Other Investment Cash Flow	(2)	4	(3)	(8)	(8)
Net Change in Debt	117	54	(246)	190	(269)
Net Equity Proceeds	2	(93)	28	25	217
Capital Structure					
Short-Term Debt	206	126	73	351	151
Long-Term Debt	2,361	2,298	2,278	2,235	2,220
Total Debt	2,567	2,424	2,351	2,586	2,371
Total Hybrid Equity and Minority Interest	—	—	—	—	—
Common Equity	2,255	2,178	2,177	2,052	1,966
Total Capital	4,822	4,602	4,528	4,638	4,337
Total Debt/Total Capital (%)	53.2	52.7	51.9	55.8	54.7
Total Hybrid Equity and Minority Interest/Total Capital (%)	—	—	—	—	—
Common Equity/Total Capital (%)	46.8	47.3	48.1	44.2	45.3

Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports, Fitch Ratings.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

ATO PR Affirm - Fitch 2012-04-30

FitchRatings

Tagging Info

Fitch Affirms Atmos Energy's Ratings; Outlook Stable

Ratings Endorsement Policy

30 Apr 2012 5:29 PM (EDT)

Fitch Ratings-New York-30 April 2012: Fitch Ratings has affirmed Atmos Energy Corporation's (Atmos) ratings, including its long-term Issuer Default Rating (IDR) at 'BBB+' and its senior unsecured debt rating at 'A-'. A full list of rating actions is shown at the end of this release.

The Rating Outlook is Stable.

These rating actions affect approximately $2.2 billion of long-term debt.

Key rating factors include the following strengths:

--A constructive regulatory environment that includes annual ratemaking mechanisms and weather normalization;
--A prudent management team that has focused on increasing and improving the predictability of its regulated distribution segment's operating income;
--Large and geographically diverse regulated operations.

These strengths are tempered by the following concern:

--A greater degree of earnings volatility and commodity exposure at Atmos Energy Holdings, Inc.'s (AEH) nonregulated operations.

Constructive Regulatory Mechanisms:

Several regulatory mechanisms, including annual ratemaking, weather normalization, and purchased gas cost adjustments, reduce regulatory lag and add stability to earnings and cash flows.

Nearly three-quarters of the distribution segment's gross profit is subject to annual ratemaking, which allows for the recovery of both capital expenditures and O&M expenses without the need to file a formal rate case.

Roughly 94% of the distribution segment's residential and commercial customer gross profit is covered under weather normalization mechanisms, adding further certainty to cash flows.

Purchased-gas cost adjustment mechanisms provide a dollar-for-dollar offset to increases or decreases in the distribution segment's purchased gas costs, and trackers cover the gas portion of customer bad-debt expense in most of Atmos' Texas service territory and in several other states.

Obtaining these aforementioned regulatory mechanisms has been a key focus of management, and Atmos has been effective in improving the regulatory environment throughout its multi-state distribution service territory. These efforts have led to organic growth in rate base, which, when combined with careful oversight of O&M expenses and a manageable capital spending program, has strengthened the company's financial profile.

Large Geographically Diverse Operations:

The ratings are further supported by the low-risk nature of Atmos' large and geographically diverse regulated operations. Atmos also benefits from its large Texas intrastate pipeline and associated storage assets, which provide access from several natural gas basins to three of the major Texas hubs.

AEH's Nonregulated Operations:

Slightly offsetting these strengths are the company's non-regulated operations, which include gas supply management, marketing, and gathering and storage services that are mainly conducted at the company's AEH subsidiary. These operations have a higher level of business risk than the company's regulated operations, due to greater earnings volatility and commodity exposure. AEH has been negatively affected in recent years by the extreme narrowing or elimination of basis differentials, which is expected to continue in the near term.

Strong Financial Performance:

Fitch expects Atmos to maintain its strong financial metrics, which have been driven by organic growth in Atmos' regulated natural gas distribution segment. For the next three years, Fitch expects funds from operations (FFO)-to-total debt to average more than 22%, with total debt-to-EBITDA near 3.5 times (x).

Adequate Liquidity:

Liquidity is adequate, primarily supported by Atmos' $750 million commercial paper program, which is backed up by a five-year $750 million revolving credit facility that matures on May 2, 2016. The facility has an accordion feature that allows for an increase in borrowing capacity to $1 billion.

Atmos Energy Marketing, LLC (AEM), the wholly owned subsidiary of AEH, has its own $200 million revolving credit facility, which matures on Dec. 8, 2013. AEM's operations could require a significant amount of liquidity if natural gas prices were to increase, but Fitch considers AEM's revolving credit facility, with the ability to increase borrowing capacity to $500 million, adequate to meet future needs.

In addition to these third-party facilities, there are three intercompany credit facilities that simulate a money pool and allow for the efficient management of cash among Atmos, AEH, and AEM.

Fitch has affirmed the following ratings:

Atmos
--Long-term IDR at 'BBB+';
--Senior unsecured debt at 'A-';
--Short-term IDR at 'F2';
--Commercial paper at 'F2'.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 12, 2011);
--'Recovery Ratings and Notching Criteria for Utilities' (Aug. 12, 2011);

--Special Report: 'Rating North American Utilities, Power, Gas, and Water Companies' (May 16, 2011).

Applicable Criteria and Related Research:
Corporate Rating Methodology
Recovery Ratings and Notching Criteria for Utilities
Rating North American Utilities, Power, Gas, and Water Companies

ATO PR Upgrade - Fitch 2011-06-02

CASE NO. 2012-00180
ATTACHMENT 1
TO OAG DR NO. 1-184

FitchRatings

Tagging Info

Fitch Upgrades Atmos Energy's Ratings; Outlook Stable Ratings

02 Jun 2011 5:36 PM (EDT)

Fitch Ratings-New York-02 June 2011: Fitch Ratings has upgraded Atmos Energy Corporation's (Atmos) long-term Issuer Default Rating (IDR) to 'BBB+' from 'BBB' and its senior unsecured debt rating to 'A-' from 'BBB+'. A full list of rating actions is shown at the end of this release.

The Rating Outlook is Stable.

These rating actions affect approximately $1.8 billion of long-term debt.

Key rating factors include the following strengths:

--A constructive regulatory environment that includes annual ratemaking mechanisms and weather normalization;
--A prudent management team that has focused on increasing and improving the predictability of its regulated distribution segment's operating income;
--Large and geographically diverse regulated operations.

These strengths are tempered by the following concern:

--A greater degree of earnings volatility and commodity exposure at Atmos Energy Holdings, Inc.'s (AEH) nonregulated operations.

The ratings upgrade reflects Fitch's expectation of continued strong financial performance, which has been driven by organic growth in Atmos' regulated natural gas distribution segment. For the next three years, Fitch expects funds from operations (FFO) to total debt to average more than 22%, with total debt to EBITDA near 3.5 times (x).

Constructive Regulatory Mechanisms:

Several regulatory mechanisms, including annual ratemaking, weather normalization, and purchased gas cost adjustments, reduce regulatory lag and add stability to earnings and cash flows.

Two-thirds of the distribution segment's operating income is subject to annual ratemaking, which allows for the recovery of both capital expenditures and O&M expenses without filing a formal rate case. Roughly 94% of the distribution segment's operating income is covered under weather normalization mechanisms, lessening the effect of abnormal weather. Purchased gas cost adjustment mechanisms provide a dollar-for-dollar offset of increases or decreases in purchased gas costs, and trackers cover the gas portion of customer bad-debt expense in most of Atmos' Texas service territory.

Obtaining these aforementioned regulatory mechanisms has been a key focus of management, and Atmos has been effective in improving the regulatory environment throughout its multi-state distribution service territory. These efforts have led to organic growth in rate base, which, when combined with careful oversight of O&M expenses and a manageable capital spending program, has improved the company's financial profile over the past few years.

Large Geographically Diverse Operations:

The ratings are further supported by the low-risk nature of Atmos' large and geographically diverse regulated operations. Atmos also benefits from its large Texas intrastate pipeline and associated storage assets, which provide access from several natural gas basins to three of the major Texas hubs.

AEH's Nonregulated Operations:

Slightly offsetting these strengths are the company's non-regulated operations, which include gas supply management, marketing, and gathering and storage services that are mainly conducted at the company's AEH subsidiary. These operations have a higher level of business risk than the company's regulated gas distribution and pipeline operations, in the form of greater earnings volatility and commodity exposure. AEH's physical hedges and few net open positions help mitigate these risks.

AEH stands to benefit from its asset optimization business when natural gas market fundamentals improve, although it has been negatively impacted by the narrowing of basis differentials during the past two years.

Adequate Liquidity:

Liquidity is adequate, supported by sufficient availability under Atmos' new five-year, $750 million revolving credit facility that serves as a backup for the commercial paper program. The facility has an accordion feature that allows for an increase in borrowing capacity to $1 billion.

Atmos Energy Marketing, LLC (AEM), the wholly owned subsidiary of AEH, has its own $200 million revolving credit facility, which matures on Dec. 8, 2013. AEM's operations could require a significant amount of liquidity if natural gas prices were to increase, but Fitch considers AEM's revolving credit facility, with the ability to increase borrowing capacity to $500 million, adequate to meet future needs.

Company Profile:

Atmos is one of the largest natural gas-only distributors in the U.S., currently serving over three million natural gas distribution customers in 12 states, primarily in the South. Atmos also has natural gas pipeline and storage assets, including a 6,000-mile intrastate natural gas pipeline system in Texas. In addition, AEH provides natural gas marketing and procurement services to industrial, commercial, and municipal customers, with a focus in the Midwest and Southeast.

Fitch has upgraded the following ratings:

Atmos
--Long-term IDR to 'BBB+' from 'BBB';
--Senior unsecured debt to 'A-' from 'BBB+'.

Fitch has affirmed the following ratings:

Atmos
--Short-term IDR at 'F2';
--Commercial paper at 'F2'.

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 16, 2010);
--'Recovery Ratings and Notching Criteria for Utilities' (May 12, 2011);
--'Rating North American Utilities, Power, Gas, and Water Companies' (May 16, 2011).

Applicable Criteria and Related Research:
Corporate Rating Methodology
Recovery Ratings and Notching Criteria for Utilities
Rating North American Utilities, Power, Gas, and Water Companies

ATO PR Upgrade – Moody's 2011-05-11

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Atmos Energy to Baa1

Global Credit Research - 11 May 2011

Over $2 billion of debt affected

New York, May 11, 2011 -- Moody's Investors Service today upgraded the senior unsecured debt rating for Atmos Energy Corporation (Atmos) to Baa1 from Baa2 and the subordinated debt rating to Baa2 from Baa3. The rating outlook for Atmos is stable.

RATINGS RATIONALE

The upgrade of Atmos reflects a number of favorable factors, including a continuing series of rate increases which have resulted in a sustainable improvement in credit metrics, the recent renewal of the company's primary credit facility, the favorable resolution of the Atmos Pipeline rate case, and a renewed management focus on low-risk regulated activities.

"Steady rate increases, as well as its improving credit metrics and business risk profile, support a one-notch upgrade for Atmos," said Moody's vice president Mihoko Manabe.

In April, Atmos secured some certainty in its liquidity resources in renewing two expiring credit facilities with a committed $750 million five-year facility. Earlier in March, the company also renewed its $25 million facility. Both facilities are currently undrawn and thus fully available to bridge finance $350 million of debt which matures on Monday. The company plans to refinance this debt with a $300 million long-term note issuance in June, which will result in incremental de-leveraging.

Atmos' continuing series of rate increases has been supportive of improving credit metrics and is another important factor in the upgrade. So far this year, the company has been granted about $45 million of rate relief, which is on track with the approximately $50 to $60 million of rate increases that Atmos seeks to obtain every year. The majority of these increases came from routine annual rate filings, capital investment recovery mechanisms, and surcharges. Moody's believes that compared to periodic base rate cases, recovery from such routine annual rate filings can be more timely and more certain.

Notably, the company was recently awarded an annual increase in operating income of $20.4 million in the Atmos Pipeline rate case (about a 20% increase from that division's 2010 operating income), the largest of its rate cases in fiscal 2011. The Pipeline's allowed return on equity (ROE) was increased to 11.8% from 10%. The order also introduced some revenue-stabilizing features, including a straight fixed variable rate design and a rider that adjusts for fluctuations in industrial sales.

With its recent abandonment of its gas storage development business and a weaker outlook for its minor marketing business, Atmos has a renewed strategic focus on lower risk regulated activities, which Moody's views as a credit-positive development.

A series of rate increases has contributed to a steady improvement in Atmos's credit metrics over the past few years. For the 12 months ended March 31, 2011, cash flow from operations pre-working capital-to-debt (CF pre-WC) was 32% and CF pre-WC plus interest-to-interest was 5.8 times, both after Moody's standard adjustments. Moody's noted that these metrics are unusually high, reflecting nonrecurring increases in cash flow from a one-time change in accounting for repairs and bonus depreciation. Although the temporary benefits of bonus depreciation will wane after fiscal 2013, Moody's believes that Atmos will be able to sustain its credit metrics longer term at levels that would support a Baa1 rating, including CF pre-WC-to-debt above 20% and CF pre-WC plus Interest-to-interest in the mid-4 times range.

Moody's said that Atmos's rating could be upgraded with a sustained improvement in its credit metrics, including CF pre-WC-to-debt in the mid 20% range and CF pre-WC plus Interest-to-Interest in the high 4 times range. Conversely, Atmos's ratings could be downgraded with a sustained weakening in its metrics, including CF pre-WC-to-debt in the high teens, CF pre-WC plus interest-to-interest around 4 times. In addition, M&A activity that results in higher financial and business risks could also negatively affect the rating.

Upgrades:

..Issuer: Atmos Energy Corporation

....Multiple Seniority Shelf, Upgraded to a range of (P)Baa2 to (P)Baa1 from a range of (P)Baa3 to (P)Baa2

....Multiple Seniority Shelf, Upgraded to a range of (P)Baa2 to (P)Baa1 from a range of (P)Baa3 to (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa1 from Baa2

Outlook Actions:

..Issuer: Atmos Energy Corporation

....Outlook, Changed To Stable From Rating Under Review

Moody's most recent rating action on Atmos was on March 31, 2011, when Moody's initiated a review for possible upgrade.

The principal methodology used in rating Atmos is Moody's Regulated Electric and Gas Utilities methodology published in August 2009. Other methodologies and factors that may have been considered in the process of rating the issuer can also be found on Moody's website.

Headquartered in Dallas, Texas, Atmos Energy Corporation engages in the distribution, transmission, and marketing of natural gas.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investor Service's information.

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Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

ATO_Fitch Report_2013

Atmos Energy Corp.

Full Rating Report

Ratings

Long-Term IDR	BBB+
Short-Term IDR	F2
Senior Unsecured	A–
Commercial Paper	F2

IDR – Issuer Default Rating.

Rating Outlook

Stable

Financial Data

Atmos Energy Corp.

($ Mil., Fiscal Year Ended Sept. 30)	2011	2012
Net Revenues	1,327	1,323
Operating EBITDA	735	723
FFO	607	590
Capex	(623)	(733)
Total Debt	2,698	2,795
EBITDA Interest Coverage (x)	4.32	4.60
FFO Interest Coverage (x)	4.57	4.75
Debt/EBITDA (x)	3.67	3.87
FFO/Debt (%)	22.52	21.10
Total Debt/Total Capitalization (%)	54.47	54.24

Note: 2011 as originally reported, including Fitch adjustments.

Related Research

Fitch Rates Atmos Energy's Senior Notes 'A–'; Outlook Stable (January 2013)

2013 Outlook: Utilities, Power, and Gas (December 2012)

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Key Rating Drivers

Constructive Regulatory Environment: The ratings of Atmos Energy Corporation (Atmos) are supported by a constructive regulatory environment in its multijurisdictional service territory. Atmos has been able to implement several regulatory mechanisms, including annual ratemaking, purchased gas cost adjustments, and weather normalization, across many of its jurisdictions.

Emphasis on Regulated Operations: Management has been able to achieve steady growth in Atmos' regulated distribution and transmission businesses, while the economically and market-sensitive nonregulated operations hold greater long-term growth potential. Fitch Ratings expects regulated operations to average more than 90% of net income over the long term, although this level should remain higher in the near term given weak market conditions that have been affecting the nonregulated operations.

Large Geographically Diverse Operations: Atmos benefits from the low-risk nature of its large and geographically diverse regulated operations, and its large Texas intrastate pipeline and associated storage assets. Management has focused on exiting nonstrategic regions through asset sales, and redeploying proceeds in the remaining regions with higher growth operations.

Strong Financial Performance: Fitch expects Atmos to maintain its strong financial metrics, which have been driven by organic growth in Atmos' regulated natural gas distribution segment. For the next three years, Fitch expects FFO to total debt to average more than 20%, with total debt to EBITDA to range between approximately 3.8x and 3.6x.

Volatility at Nonregulated Operations: Atmos Energy Holdings, Inc. (AEH) and its wholly owned subsidiary, Atmos Energy Marketing, LLC (AEM), are responsible for the majority of Atmos' nonregulated earnings. These nonregulated gathering, storage, transportation, and supply-management operations exhibit greater earnings volatility than the regulated operations due to their exposure to natural gas prices and the supply and demand effects on market conditions.

Rating Outlook: The Stable Outlook for Atmos reflects predictable and stable earnings driven by a constructive regulatory environment and the low-risk nature of its regulated operations.

What Could Trigger a Rating Action

Potential Positive Factors: The downsizing of Atmos' nonregulated operations along with continued strong performance of the regulated distribution and transmission and storage businesses could result in a positive rating action.

Potential Negative Factors: A significant increase in the size or risk of Atmos' nonregulated operations, or a large or heavily debt-financed acquisition could result in a negative rating action.

Key Rating Issues

Regulatory Environment

Atmos operates in Texas, Louisiana, Mississippi, Kansas, Colorado, Tennessee, Kentucky, Virginia, and Georgia. Fitch considers Atmos' regulatory environment to be constructive, enabling the utility to earn a reasonable return.

The state of Texas, in which nearly 60% of Atmos' distribution customers are located, has a relatively decentralized regulatory approach. The governing body of each municipality has original jurisdiction over all rates, operations, and services within its city limits. The Railroad Commission of Texas (RRC) has exclusive appellate jurisdiction over all rate and regulatory orders and ordinances of the municipalities, and exclusive original jurisdiction over rates and services to customers not located within the limits of a municipality. Atmos' natural gas distribution jurisdictions within Texas have authorized returns on equity (ROE) that range from 10.1% to 10.5%, with the most recent decision for the Mid-Tex region at a 10.5% ROE.

The eight other states in which Atmos distributes natural gas are regulated by each state's public service commission. The authorized ROEs in these states range from 9.89% to 10.5%.

Regulatory Mechanisms Stabilize Cash Flows

Atmos has been able to implement rate designs in recent years on its approximately $4.2 billion rate base that have reduced regulatory lag and helped decouple gross margin from customer usage patterns. These cash flow-stabilizing regulatory mechanisms include annual ratemaking, timely capital cost recovery, purchased gas cost adjustments, and weather normalization.

Annual ratemaking mechanisms are in place in Louisiana, Mississippi, Texas, and Georgia that allow for the annual recovery of capex, and except for Texas, operating and maintenance (O&M) expenses. These mechanisms provide for filing an annual rate review and adjustment to rates instead of a formal rate case, covering approximately 77% of Atmos' natural gas distribution gross margin in fiscal 2012.

The gas reliability infrastructure program (GRIP) in Texas allows Atmos to include annually approved capex incurred in the prior calendar year in rates without the need to file a formal rate case. The GRIP applies to Atmos' natural gas distribution customers in Texas not located within the limits of a municipality. Similar mechanisms that provide accelerated capital recovery have been enacted in Atmos' service territories in Kentucky, Virginia, Kansas, and Georgia. Additionally, 100% of capex in Atmos' regulated transmission and storage segment are recoverable through GRIP.

Purchased gas cost adjustment mechanisms provide a dollar-for-dollar offset to increases or decreases in natural gas distribution purchased gas costs monthly or quarterly, depending on the jurisdiction, without the need to file a rate case. Some jurisdictions also have performance-based ratemaking adjustments to provide incentives to minimize purchased gas costs through improved storage management and the use of hedges to lock in gas costs. Trackers cover the gas cost portion of customer bad-debt expense in most of Atmos' Texas service territory and in several other states, covering approximately 75% of Atmos' natural gas distribution gross margin.

Importantly, Atmos has been able to implement weather normalization adjustment (WNA) mechanisms in Texas, Louisiana, Mississippi, Kentucky, Tennessee, Kansas, Virginia, and Georgia, covering roughly 97% of the natural gas distribution segment's residential and commercial customer gross profit. WNA mechanisms lessen the effect of abnormal weather, adding further certainty to cash flows.

Related Criteria

Corporate Rating Methodology (August 2012)

Rating North American Utilities, Power, Gas, and Water Companies (May 2011)

Obtaining the aforementioned regulatory mechanisms has been a key focus of management, which has been effective in improving the regulatory environment throughout its multistate distribution service territory. These efforts have led to organic growth in rate base, which when combined with careful oversight of O&M expenses and a manageable capital spending program, has improved the company's financial profile over the past few years.

Asset Sales

Atmos completed the sale of its regulated distribution assets in nonstrategic regions, including Missouri, Iowa, and Illinois, to Liberty Energy Corp., an affiliate of Algonquin Power & Utilities Corp., for approximately $128 million in August 2012. The sale of the regulated distribution assets in Georgia for approximately $141 million is expected to close in late fiscal 2013.

Texas Intrastate Pipeline

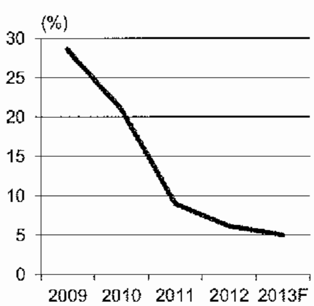
Atmos' regulated transmission and storage segment, Texas Intrastate Pipeline, is an approximately 6,000-mile pipeline that connects to three major market hubs and has five storage facilities. It is subject to regulation by the RRC, with an authorized ROE of 11.8%.

A prolonged period of low basis differentials has negatively affected Atmos' transportation and storage business during the past two years, and will likely continue to affect it in 2013. However, Atmos stands to benefit when natural gas market fundamentals improve due to its strong market position in Texas, and its access to the major Texas hubs of Waha, Katy, and Carthage.

Nonregulated Operations

The company's nonregulated operations, which include gas supply management, marketing, and gathering and storage services that are mainly conducted at the company's AEH subsidiary. In Fitch's opinion, these operations have a higher level of business risk than the company's regulated operations, due to greater earnings volatility and commodity exposure. AEH has been negatively affected in recent years by the extreme narrowing or elimination of basis differentials, which is expected to continue. As a result, Fitch expects contributions from these operations to net income to be less than 10% in the near term.

Nonregulated Operations
(Contribution to Adjusted Net Income)



F – Forecast.
Source: Company reports, Fitch.

Financial Overview

Liquidity and Debt Structure

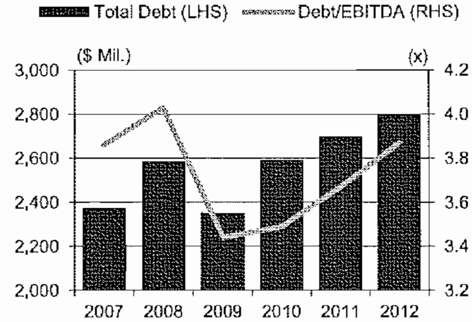
Debt Maturities and Liquidity

(At 2012 Year-End)

Debt Maturities	($ Mil.)
2013	0
2014	0
2015	500
2016	0
2017	250
Cash and Cash Equivalents	64
Undrawn Committed Facilities	605

Source: Company reports, Fitch.

Total Debt and Leverage



Source: Company reports, Fitch.

Total available liquidity stood at approximately $669 million as of Sept. 30, 2012. Atmos increased its $750 million revolving credit facility by $200 million to $950 million in December 2012, while maintaining its accordion feature at $250 million. The facility now allows Atmos to obtain same-day funding on base rate loans. At the same time, AEM terminated its $200 million secured credit facility and replaced it with two $25 million, 364-day bilateral facilities. Atmos retained its various one-year facilities totaling $39 million. Given the lower cost of gas inventories in storage and the increased facility size, Fitch considers Atmos' liquidity sufficient.

In addition to these third-party facilities, there are three intercompany credit facilities that simulate a money pool and allow for the efficient management of cash among Atmos, AEH, and AEM. AEH serves as the intermediary between Atmos and AEM with respect to these facilities, allowing for up to $500 million to be borrowed from or lent to Atmos, and for up to $500 million to be lent to AEM. These facilities are renewed annually at calendar year end. There was $211.5 million outstanding under this facility as of Sept. 30, 2012.

Significant debt covenants include a ratio of total debt to capitalization of no greater than 70%, and cross-default provision triggers at $15 million–$100 million for different facilities. Atmos was in compliance with all debt covenants as of Sept. 30, 2012, and maintained a total debt-to-total capitalization ratio, as defined in the credit agreement, of 56%.

In January 2013, Atmos issued $500 million 4.15% senior unsecured notes due Jan. 15, 2043.

Atmos has a manageable near-term debt maturity schedule, with its $500 million, 4.95% notes maturing on Oct. 15, 2014, the only significant notes maturing before 2017. Fitch considers the company's access to capital as unrestricted. The current interest rate environment facilitates low cost of capital over the near term, which Atmos has already taken advantage of with the issuance of senior unsecured notes in January 2013.

Capitalization Structure

($ Mil., As of Sept. 30, 2012)	Amount	% of Total Debt	% of Capital
Unsecured Senior Notes	1,800	64	35
Unsecured Debentures	150	5	3
Unsecured Medium-Term Notes	10	0	0
Operating Lease Equivalent	269	10	5
Rental Property Term Notes	0	0	0
Total Adjusted Long-Term Debt	2,229	80	43
Minus: Unamortized Discounts	(4)	0	0
Short-Term Debt	571	20	11
Total Adjusted Debt	**2,796**	**100**	**54**
Shareholders' Equity	2,359	—	46
Total Book Capitalization	**5,155**	**—**	**100**

Source: Company reports, Fitch analysis.

Lease-Equivalent Debt

Atmos has long-term, noncancelable operating leases for office and warehouse space used in its operations. Consolidated lease and rental expense for fiscal year-end 2012, 2011, and 2010 were $33.6 million, $35.5 million, and $36.7 million, respectively.

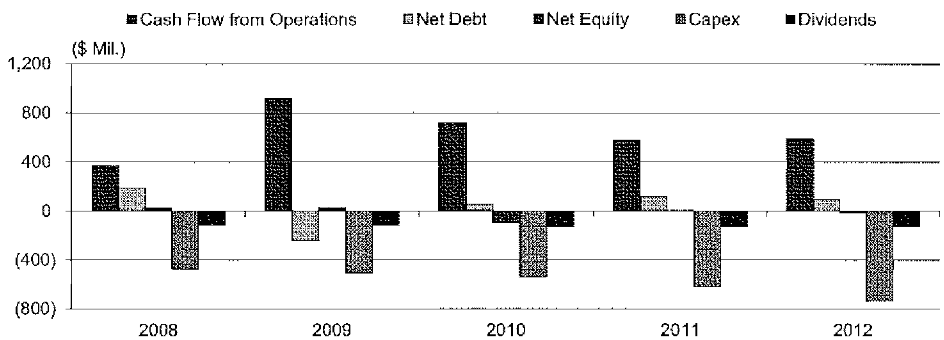
Fitch calculates a debt equivalent using 8x the latest full fiscal year's rental expense. This calculation resulted in $268.8 million being added to Atmos' adjusted long-term debt for 2012 and in each year of Fitch's projections.

Cash Flow Analysis

Atmos historically has been able to fund the majority of its capex through cash flows. Due to the larger capital program in 2011 and especially 2012, Atmos has added approximately $200 million of debt to its capital structure in total. Fitch expects Atmos to fund its future capex through cash flows supported by debt issuances over the next three years. Fitch expects dividends to continue to grow, consistent with Atmos' track record of dividend growth year over year, when adjusted for asset sales.

Atmos announced in the fourth quarter earnings call the fiscal 2013 capital budget is $770 million–790 million, focused mainly on safety and compliance expenditures, along with increased customer expansion expenditures and system improvements. Distribution capex plans for fiscal 2013 and beyond include steel service line replacement in Texas and additional enhanced infrastructure replacement plans in Texas, Kentucky, Kansas, and Georgia. Transmission and storage capex plans include two service reliability enhancement projects currently underway.

CFO and Cash Use



Source: Company reports, Fitch.

Peer Group

Issuer	Country
A–	
NSTAR Gas Company	United States
BBB+	
Southwest Gas Corporation	United States
BBB	
Michigan Consolidated Gas Co.	United States
NorthWestern Corporation	United States

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
April 30, 2012	BBB+	Stable
June 2, 2011	BBB+	Stable
June 21, 2010	BBB	Positive
March 23, 2009	BBB	Stable
Aug. 7, 2008	BBB	Stable
June 7, 2007	BBB	Stable
Jan. 13, 2006	BBB	Stable
Dec. 6, 2005	BBB+	Negative

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch.

Peer and Sector Analysis

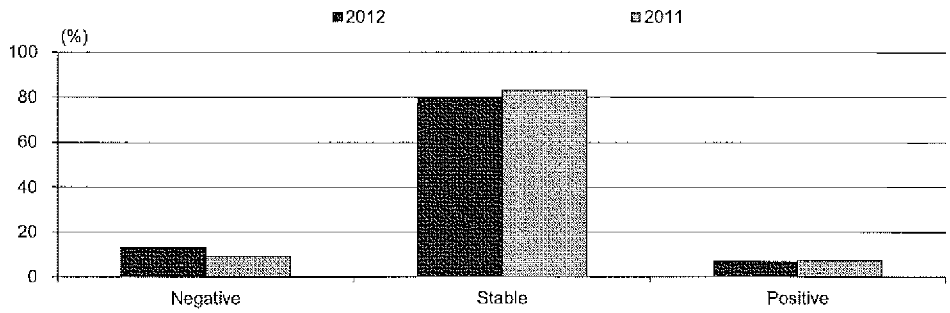
Peer Group Analysis

	Atmos Energy Corp.	NSTAR Gas Company	Southwest Gas Corporation
LTM as of	9/30/12	9/30/12	9/30/12
Long-Term IDR	BBB+	A–	BBB+
Rating Outlook	Stable	Stable	Positive
Financial Statistics ($ Mil.)			
Revenue	3,438	341	1,957
EBITDA	723	59	479
EBITDA Margin (%)	21	17	24
Total Adjusted Debt	2,796	288	1,261
Cash and Cash Equivalents	64	1	22
Funds Flow from Operations	590	76	349
Capex	(733)	(77)	(393)
Credit Metrics (x)			
EBITDA/Gross Interest Coverage	4.60	4.54	6.84
Debt/FFO	4.74	3.79	3.61
Debt/EBITDA	3.87	4.88	2.63
FFO Interest Coverage	4.75	6.85	5.99
Capex/Revenues	21.32	22.58	20.08
Capex/Depreciation (%)	286.92	233.33	179.45

IDR – Issuer Default Rating.
Source: Company reports, Fitch analysis.

In general, the Utilities, Power, and Gas sector outlooks remain stable. See the Sector Outlook Distribution chart below for Fitch's outlook distribution on the Utilities, Power, and Gas sector.

Sector Outlook Distribution



Source: Fitch.

Fitch's outlook for gas utility companies remains Stable. Gas utilities are advantaged by low natural gas prices, which minimize customer conservation, and long-term forecasts of abundant and low-priced natural gas supplies, which stimulate conversions to natural gas from other fuel sources and stimulate organic growth. While the slow pace of economic recovery has limited sales growth, local distribution companies remain well positioned with modest capex requirements, mostly related to system reliability and maintenance.

Company Profile

More than 90% of Atmos' customer base is retained annually.

Atmos is one of the largest natural gas-only distributors in the U.S., currently serving more than three million natural gas distribution customers in nine states. The company's natural gas distribution segment has accounted for 67% of consolidated operating income on average over the past three years, excluding asset impairments.

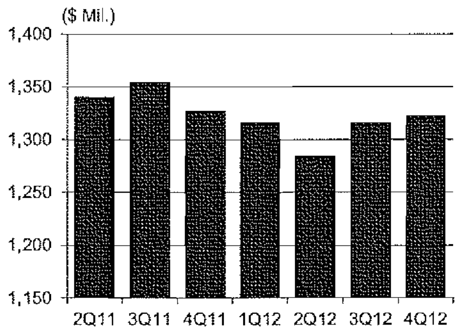
Atmos has regulated natural gas pipeline and storage assets, including a nearly 6,000-mile intrastate natural gas pipeline system in Texas. The company's regulated transmission and storage segment has accounted for 24% of consolidated operating income on average over the past three years, excluding asset impairments.

Atmos' nonregulated operations include transmission and storage assets, and AEM's natural gas marketing and procurement services to customers primarily located in the Midwest and Southeast, and compliment regulated operations.

Business Trends

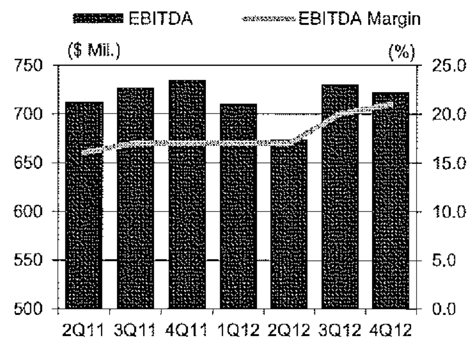
Fitch considers Atmos' strategy of pursuing rate mechanisms that provide for full and timely recovery of costs and expenditures as key to maintaining consistent results. EBITDA margins have increased, due, in part, to low natural gas prices and rate base increases. The company experienced some earnings headwind in the first half of 2012 from the mild winter heating season.

Revenue Dynamics
(Net Revenue)



Note: Each quarter is as originally reported.
Source: Company reports, Fitch.

EBITDA Dynamics



Note: Each quarter is as originally reported.
Source: Company reports, Fitch.

Definitions

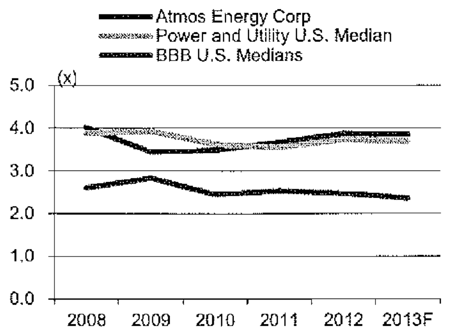
- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest Cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- FFO/Debt: FFO divided by gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock.

Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecasts assumptions include:

- An increase in operating income in 2013 due to rate base increases.
- Normal weather.

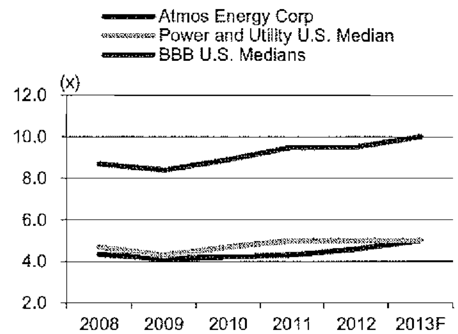
Key Metrics

Leverage — Total Adjusted Debt/ Op. EBITDA



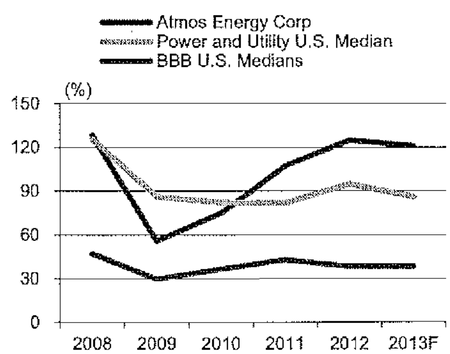
F – Forecast.
Note: As originally reported, including Fitch adjustments.
Source: Company reports, Fitch analysis.

Interest Coverage: Op. EBITDA/ Gross Interest Expense



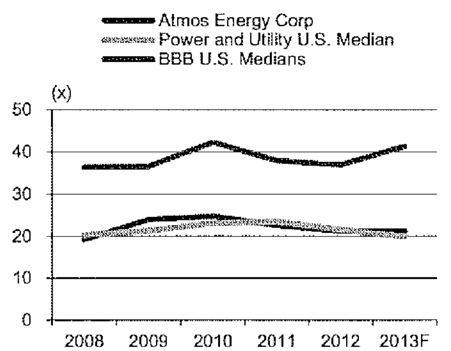
F – Forecast.
Note: As originally reported, including Fitch adjustments.
Source: Company reports, Fitch analysis.

Capex/CFO



F – Forecast.
Note: As originally reported, including Fitch adjustments.
Source: Company reports, Fitch analysis.

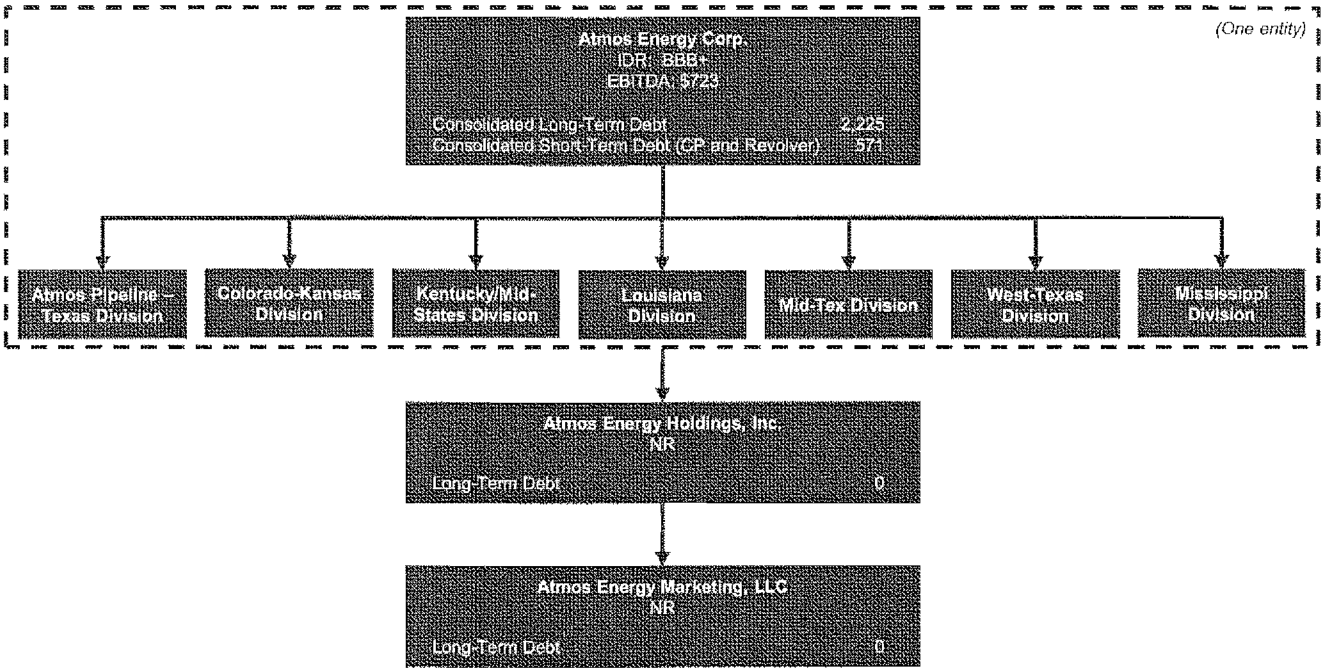
FFO/Debt



F – Forecast.
Note: As originally reported, including Fitch adjustments.
Source: Company reports, Fitch analysis.

Organizational Structure

Organizational Structure — Atmos Energy Corp.
($ Mil., As of Sept. 30, 2012)



IDR – Issuer Default Rating. CP – Commercial paper. NR – Not rated.
Source: Company filings, Bloomberg, Fitch Ratings.

Financial Summary — Atmos Energy Corp.

($ Mil. Fiscal Years Ended Sept. 30)	2008	2009	2010	2011	2012
Fundamental Ratios (x)					
FFO/Interest Expense	4.34	4.41	4.64	4.57	4.75
CFO/Interest Expense	3.49	6.54	5.12	4.42	4.74
FFO/Debt (%)	19.16	23.92	24.69	22.52	21.10
Operating EBIT/Interest Expense	2.94	2.78	2.88	2.88	2.97
Operating EBITDA/Interest Expense	4.34	4.14	4.23	4.32	4.60
Operating EBITDAR/(Interest Expense + Rent)	3.96	3.82	3.50	3.57	3.79
Debt/Operating EBITDA	4.03	3.44	3.49	3.67	3.87
Common Dividend Payout (%)	65.00	63.35	60.19	59.62	58.06
Internal Cash/Capital Expenditures (%)	53.52	157.34	111.13	73.59	62.89
Capital Expenditures/Depreciation (%)	228.02	227.23	230.00	253.81	286.92
Profitability					
Adjusted Revenues	7,221	4,969	4,790	4,347	3,438
Net Revenues	1,321	1,347	1,365	1,327	1,324
Operating and Maintenance Expense	500	495	468	449	454
Operating EBITDA	642	683	743	735	723
Depreciation and Amortization Expense	207	224	236	245	255
Operating EBIT	435	459	507	489	467
Gross Interest Expense	148	165	176	170	157
Net Income for Common	180	191	206	208	217
Operating and Maintenance Expense % of Net Revenues	37.85	36.75	34.29	33.84	34.24
Operating EBIT % of Net Revenues	32.93	34.08	37.11	36.85	35.31
Cash Flow					
Cash Flow from Operations	368	914	723	581	587
Change in Working Capital	(127)	352	83	(26)	(3)
Funds From Operations	495	562	640	607	590
Dividends	(117)	(121)	(124)	(124)	(126)
Capital Expenditures	(472)	(509)	(543)	(623)	(733)
FCF	**(221)**	**284**	**56**	**(166)**	**(272)**
Net Other Investment Cash Flow	(8)	(3)	4	(2)	124
Net Change in Debt	190	(246)	54	117	97
Net Equity Proceeds	25	28	(93)	2	(16)
Capital Structure					
Short-Term Debt	351	73	126	206	571
Long-Term Debt	2,235	2,278	2,464	2,492	2,225
Total Debt	**2,586**	**2,351**	**2,590**	**2,698**	**2,796**
Total Hybrid Equity and Minority Interest	—	—	—	—	—
Common Equity	2,052	2,177	2,178	2,255	2,359
Total Capital	**4,638**	**4,528**	**4,768**	**4,953**	**5,155**
Total Debt/Total Capital (%)	56	52	54	54	54
Total Hybrid Equity and Minority Interest/Total Capital (%)	—	—	—	—	—
Common Equity/Total Capital (%)	44.24	48.08	45.68	45.53	45.76

Note: As originally reported, including Fitch adjustments.
Source: Company reports, Fitch analysis.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Fitch - Ratings Letter 2013-01-10

FitchRatings

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Daniel Meziere
Vice President & Treasurer
Atmos Energy Corporation
5430 LBJ Freeway – Suit 1800
Dallas, TX 75240

January 10, 2013

Dear Mr. Meziere,

Re: Atmos Energy Corporation' $500 million Senior Unsecured Note Issuance

Fitch (see definition below) assigns the following ratings, subject to receipt of final documents:

'A-' to $500 million, 4.15% Senior Unsecured Notes, due January 15, 2043

The Rating Outlook is Stable.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a

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Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between Fitch and you or between Fitch and any user of the ratings.

In this letter, "**Fitch**" means Fitch, Inc. and any subsidiary or successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact me at (212) 908-0577.

Sincerely,

Glen Grabelsky
Managing Director

Ratings Direct_Analysis_1082648_02_22_2013_10_52_38 article SP

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Summary:

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Table Of Contents

Summary:

Atmos Energy Corp.

Credit Rating: BBB+/Stable/A-2

Rationale

Standard & Poor's Ratings Services' ratings on Dallas-based Atmos Energy Corp. reflect the company's "excellent" business risk and "significant" financial risk profiles under our criteria.

The "excellent" business risk profile for Atmos incorporates the company's low-operating risk regulated natural gas distribution and gas pipeline transmission operations that contribute about 90% of operating income. These businesses benefit from operations under generally constructive regulatory frameworks and jurisdictions and, in many but not all jurisdictions, include the use of weather-normalization clauses, revenue-stabilization mechanisms, and capital recovery mechanisms which support cash flow stability. Atmos' business risk profile also benefits from operating and regulatory diversity; however, the company's Texas operations provide about 60% of operating income. The regulated customer base is large at more than three million customers and residential and commercial customers provide the bulk of revenues and sales, which, in combination with the constructive regulatory environments, supports stable cash flow generation.

Atmos' regulated transmission and storage segment transports natural gas to the company's Mid-Tex division, transports natural gas for third parties, and manages underground storage reservoirs in Texas. This is a strategic asset because it supplies gas to a substantial proportion of Atmos' distribution network and provides access to natural gas from several basins in Texas, which have substantial reserves. We expect this segment to generate relatively stable cash flow.

These strengths are offset by the company's higher-risk, nonregulated operations that engage in retail gas supply, gas storage and transportation and asset optimization. The retail gas supply business relies on large volumes and small per unit margins in order to contribute to operating income, while the asset optimization business relies on natural gas price volatility. The contribution of these businesses has decreased in recent years as natural gas prices have decreased and stabilized at low levels. Volatile natural gas prices can create profit opportunities, but such profits are not necessarily recurring in nature. In addition to potential volatility in operating income, the unregulated operations can also create significant swings in liquidity requirements due to collateral needs. Notably, these businesses require stringent risk management and oversight to avoid and/or minimize the impact of unexpected price movements.

We view the financial risk profile of Atmos as significant, incorporating the company's stable regulated cash flows, and somewhat high debt leverage. Notwithstanding the volatility associated with the unregulated operations' financial performance, credit protection measures have remained fairly stable in the past few years, benefiting from additions to ratebase and timely recovery of invested capital. For the 12 months ended Sept. 30, 2012, Atmos generated about $562 million in funds from operations (FFO) and had about $2.73 billion in debt, leading to FFO to total debt of about

21.6%. Debt leverage decreased somewhat from the previous year to 53.6% and debt to EBITDA was 3.6x. These measures remain within the significant category for the financial risk profile, supporting current ratings. Atmos' share repurchase program is relatively modest, and we do not expect any significant effect on key credit measures.

Liquidity

The short-term rating on Atmos is 'A-2' and reflects the company's corporate credit rating and the stable cash flow generation of its regulated operations. Atmos' liquidity is "adequate" under Standard & Poor's liquidity methodology criteria.

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including FFO and credit facility availability) over the next 12 months to exceed its uses by more than 1.2x.
- Atmos has a manageable debt maturity schedule with no debt maturities in fiscal years 2013 and 2014 and $500 million due in 2015.
- Even if EBITDA decreases by 15%, we believe net sources of liquidity will exceed liquidity requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets.

In our analysis we assumed liquidity of about $1.2 billion over the next 12 months, consisting mainly of FFO and availability under the revolving credit facilities. We estimate the company could use as much as $900 million during the same period for capital spending, debt maturities, and shareholder dividends.

Atmos has a $950 million revolving credit facility expiring in May 2016. Total availability under the credit facilities was $380 million as of Dec. 31, 2012.

Atmos' ability to absorb high-impact, low-probability events, its flexibility to lower capital spending, its sound bank relationships, and its solid standing in credit markets, further support our description of liquidity as strong.

Outlook

The stable rating outlook on Atmos incorporates the company's emphasis on regulated gas distribution and transmission pipeline operations while still maintaining a somewhat meaningful exposure to unregulated operations, mainly retail gas supply. The stable outlook is predicated on our base case scenario under which we expect that Atmos will achieve FFO to total debt of between 19% and 21% during 2013 and 2014, and debt leverage of about 55%, while effectively managing its liquidity needs in light of the unregulated operations. We could lower the ratings on Atmos if FFO to total debt decreases to less than 18% and debt leverage approaches 60% on a consistent basis. A higher rating would require sustained FFO to total debt of 24% to 25% and debt leverage that approaches 50% or incremental improvement in business risk.

Related Criteria And Research

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011

- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Key Credit Factors For U.S. Natural Gas Distributors, Feb. 28, 2006

REQUEST:

Please provide the S&P and Moody's credit and bond ratings for Atmos Energy Corporation and Applicant for the past five years.

RESPONSE:

Please see Attachment 1.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, OAG_1-185_Att1 - Credit and Bond Ratings.pdf, 2 Pages.

Respondent: Greg Waller

<HELP> for explanation.
<Menu> to Close

91) Company Tree Ratings | 92) Alert Page 1/1 Credit Profile

Atmos Energy Corp

Moody's Senior Unsecured Debt

Rating	Watch	Effective
Baa1		05/11/2011
Baa2	*+	03/31/2011
Baa2		05/18/2009
Baa3	*+	03/23/2009
Baa3		09/29/2004
A3	*-	06/17/2004
A3		04/18/2001
A3	*-	04/14/2000
A3		07/17/1998

1)Bloomberg Def

MOODY'S
2)Outlook STABLE
3)Long Term Rati BBB+
4)Senior Unsecur A-
5)Short Term F2
F2

6)STANDARD & PC WR
7)Outlook WR
8)LT Foreign Issu WR
9)LT Local Issuer
10)ST Foreign Issu
11)ST Local Issuer

Up / Down / No Change / Initial

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<HELP> for explanation.
<Menu> to Close
91) Company Tree Ratings | 92) Alert Page 1/1 Credit Profile
Atmos Energy Corp

S&P LT Local Issuer Credit

1)Bloomberg Def

MOODY'S
2)Outlook
3)Long Term Rati
4)Senior Unsecur
5)Short Term

6)STANDARD & PC
7)Outlook
8)LT Foreign Issu
9)LT Local Issuer
10)ST Foreign Issu
11)ST Local Issuer

Rating	Watch	Effective
BBB+		12/23/2008
BBB		09/30/2004
A-	*-	06/17/2004
A-		05/15/2001
A-	*-	04/17/2000
A-		07/18/1997

STABLE
BBB+
A-
F2
F2

WR
WR
WR

Up / Down / No Change / Initial

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REQUEST:

Please provide the breakdown in the expected return on pension plan assets for Applicant. Specifically, please provide the expected return on different assets classes (bonds, US stocks, international stocks, etc.) used in determining the expected return on plan assets. Please provide all associated source documents and work papers.

RESPONSE:

The expected rate of return of our pension asset portfolio, as reported in the Company's 10-K at September 30, 2012, is 7.75%. The expected rate of return is provided by the actuary as an overall rate of return of the entire pension asset portfolio so the break-out by each asset class is not readily available.

Respondent: Josh Densman

REQUEST:

Please provide the authorized and earned return on common equity over the past five years for Applicant. Please show the figures used in calculating the earned return on common equity for each year, including all adjustments to net income and/or common equity. Please provide copies of the source documents, work papers, and data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

RESPONSE:

The Company prepares detailed rate base calculations for its utility rate base regulated operations on a jurisdictional basis as required for regulatory filings. Therefore, the Company does not have a detailed rate base calculation (and therefore no jurisdictional ROR or ROE calculation) readily available for periods other than have been provided in the application and in Case 2009-00354.

Please see Attachment 1 for the authorized ROE as reported in the Company's 10-K for the past five fiscal years.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, OAG_1-187_Att1 - Authorized ROE.pdf, 10 Page.

Respondent: Greg Waller

Atmos Energy Colorado-Kansas Division. Our Colorado-Kansas Division serves approximately 170 communities throughout Colorado and Kansas and parts of Missouri, including the cities of Olathe, Kansas, a suburb of Kansas City and Greeley, Colorado, a suburb of Denver. We update our rates in this division through periodic formal rate filings made with each state's public service commission.

The following table provides a jurisdictional rate summary for our regulated operations. This information is for regulatory purposes only and may not be representative of our actual financial position.

Division	Jurisdiction	Effective Date of Last Rate/GRIP Action	Rate Base (thousands)[1]	Authorized Rate of Return[1]	Authorized Return on Equity[1]
Atmos Pipeline — Texas	Texas	5/24/04	$417,111	8.258%	10.00%
Atmos Pipeline — Texas — GRIP	Texas	4/15/08	713,351	8.258%	10.00%
Colorado-Kansas	Colorado	10/1/07	81,208	8.45%	11.25%
	Kansas	5/12/08	(2)	(2)	(2)
Kentucky/Mid-States	Georgia	9/22/08	66,893	7.75%	10.70%
	Illinois	11/1/00	24,564	9.18%	11.56%
	Iowa	3/1/01	5,000	(2)	11.00%
	Kentucky	8/1/07	(2)	(2)	(2)
	Missouri	3/4/07	(2)	(2)	(2)
	Tennessee	11/4/07	186,506	8.03%	10.48%
	Virginia	9/30/08	33,194	8.46% - 8.96%	9.50% - 10.50%
Louisiana	Trans LA	4/1/08	96,834	(2)	10.00% - 10.80%
	LGS	7/1/08	221,970	(2)	10.40%
Mid-Tex — Settled Cities	Texas	11/1/08	1,176,453[3]	7.79%	9.60%
Mid-Tex — Dallas & Environs	Texas	6/24/08	1,127,924[3]	7.98%	10.00%
Mississippi	Mississippi	12/28/07	215,117	7.60%	9.89%
West Texas	Amarillo	9/1/03	36,844	9.88%	12.00%
	Lubbock	3/1/04	43,300	9.15%	11.25%
	West Texas	11/18/08	112,043	7.79%	9.60%

Division	Jurisdiction	Authorized Debt/ Equity Ratio	Bad Debt Rider[4]	WNA	Performance-Based Rate Program[5]	Customer Meters
Atmos Pipeline — Texas	Texas	50/50	No	N/A	N/A	N/A
Colorado-Kansas	Colorado	54/46	No	No	No	111,069
	Kansas	(2)	Yes	Yes	No	129,048
Kentucky/Mid-States	Georgia	55/45	No	Yes	Yes	69,043
	Illinois	67/33	No	No	No	23,233
	Iowa	57/43	No	No	No	4,425
	Kentucky	(2)	No	Yes	Yes	177,393
	Missouri	(2)	No	No[6]	No	58,703
	Tennessee	56/44	Yes	Yes	Yes	134,128
	Virginia	55/45	Yes	Yes	No	23,422
Louisiana	Trans LA	52/48	No	Yes	No	78,867
	LGS	52/48	No	Yes	No	280,403
Mid-Tex — Settled Cities	Texas	52/48	Yes	Yes	No	1,225,382
Mid-Tex — Dallas & Environs	Texas	52/48	Yes	Yes	No	306,346
Mississippi	Mississippi	58/42	No[7]	Yes	No	270,716
West Texas	Amarillo	50/50	Yes	Yes	No	70,157
	Lubbock	50/50	Yes	Yes	No	73,323
	West Texas	52/48	Yes	Yes	No	156,121

(1) The rate base, authorized rate of return and authorized return on equity presented in this table are those from the last rate case or GRIP filing for each jurisdiction. These rate bases, rates of return and returns on equity are not necessarily indicative of current or future rate bases, rates of return or returns on equity.

(2) A rate base, rate of return, return on equity or debt/equity ratio was not included in the respective state commission's final decision.

(3) The Mid-Tex Rate Base amounts for the Settled Cities and Dallas & Environs both represent "system-wide", or 100 percent, of the Mid-Tex Division's rate base. The difference in rate base amounts is due to two separate test filing periods covered.

(4) The bad debt rider allows us to recover from ratepayers the gas cost portion of uncollectible accounts.

(5) The performance-based rate program provides incentives to natural gas utility companies to minimize purchased gas costs by allowing the utility company and its customers to share the purchased gas costs savings.

(6) The Missouri jurisdiction has a straight-fixed variable rate design which decouples gross profit margin from customer usage patterns.

(7) The Company filed to amend its PGA rider to allow inclusion of bad debt costs on October 1, 2008.

Atmos Energy Colorado-Kansas Division. Our Colorado-Kansas Division serves approximately 170 communities throughout Colorado and 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.

The following table provides a jurisdictional rate summary for our regulated operations. This information is for regulatory purposes only and may not be representative of our actual financial position.

Division	Jurisdiction	Effective Date of Last Rate/GRIP Action	Rate Base (thousands)[1]	Authorized Rate of Return[1]	Authorized Return on Equity[1]
Atmos Pipeline — Texas . .	Texas	5/24/04	$417,111	8.258%	10.00%
Atmos Pipeline — Texas — GRIP	Texas	4/28/09	755,038	8.258%	10.00%
Colorado-Kansas	Colorado	10/1/07	81,208	8.45%	11.25%
	Kansas	5/12/08	(2)	(2)	(2)
Kentucky/Mid-States	Georgia	9/22/08	66,893	7.75%	10.70%
	Illinois	11/1/00	24,564	9.18%	11.56%
	Iowa	3/1/01	5,000	(2)	11.00%
	Kentucky	8/1/07	(2)	(2)	(2)
	Missouri	3/4/07	(2)	(2)	(2)
	Tennessee	4/1/09	190,100	8.24%	10.30%
	Virginia	9/30/08	33,194	8.46% - 8.96%	9.50% - 10.50%
Louisiana	Trans LA	4/1/09	96,570	(2)	10.00% - 10.80%
	LGS	7/1/09	236,600	(2)	10.40%
Mid-Tex — Settled Cities . .	Texas	8/1/09	1,262,969[3]	7.78%	9.60%
Mid-Tex — Dallas & Environs	Texas	6/24/08	1,127,924[3]	7.98%	10.00%
Mississippi	Mississippi	1/1/05	196,801	8.23%	9.80%
West Texas	Amarillo	9/1/03	36,844	9.88%	12.00%
	Lubbock	3/1/04	43,300	9.15%	11.25%
	West Texas	8/1/09	124,401	(2)	9.60%

Division	Jurisdiction	Authorized Debt/ Equity Ratio	Bad Debt Rider[4]	WNA	Performance-Based Rate Program[5]	Customer Meters
Atmos Pipeline — Texas.	Texas	50/50	No	N/A	N/A	N/A
Colorado-Kansas	Colorado	54/46	No[7]	No	No	111,382
	Kansas	(2)	Yes	Yes	No	129,983
Kentucky/Mid-States	Georgia	55/45	No	Yes	Yes	65,080
	Illinois	67/33	No	No	No	22,623
	Iowa	57/43	No	No	No	4,344
	Kentucky	(2)	No[7]	Yes	Yes	175,789
	Missouri	(2)	No	No[6]	No	57,332
	Tennessee	52/48	Yes	Yes	Yes	132,764
	Virginia	55/45	Yes	Yes	No	23,182
Louisiana	Trans LA	52/48	No	Yes	No	78,345
	LGS	52/48	No	Yes	No	277,648
Mid-Tex — Settled Cities	Texas	52/48	Yes	Yes	No	1,227,598
Mid-Tex — Dallas & Environs.	Texas	52/48	Yes	Yes	No	306,899
Mississippi.	Mississippi	47/53	No[7]	Yes	No	266,785
West Texas.	Amarillo	50/50	Yes	Yes	No	69,836
	Lubbock	50/50	Yes	Yes	No	73,642
	West Texas	52/48	Yes	Yes	No	155,612

(1) The rate base, authorized rate of return and authorized return on equity presented in this table are those from the last rate case or GRIP filing for each jurisdiction. These rate bases, rates of return and returns on equity are not necessarily indicative of current or future rate bases, rates of return or returns on equity.

(2) A rate base, rate of return, return on equity or debt/equity ratio was not included in the respective state commission's final decision.

(3) The Mid-Tex Rate Base amounts for the Settled Cities and Dallas and Environs both represent "system-wide", or 100 percent, of the Mid-Tex Division's rate base. The difference in rate base amounts is due to two separate test filing periods covered.

(4) The bad debt rider allows us to recover from ratepayers the gas cost portion of uncollectible accounts.

(5) The performance-based rate program provides incentives to natural gas utility companies to minimize purchased gas costs by allowing the utility company and its customers to share the purchased gas costs savings.

(6) The Missouri jurisdiction has a straight-fixed variable rate design which decouples gross profit margin from customer usage patterns.

(7) The Company has pending requests in Colorado, Kentucky and Mississippi to move bad debt cost to the gas cost recovery mechanism. A hearing regarding the Mississippi request was held on September 1, 2009.

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.

The following table provides a jurisdictional rate summary for our regulated operations. This information is for regulatory purposes only and may not be representative of our actual financial position.

Division	Jurisdiction	Effective Date of Last Rate/GRIP Action	Rate Base (thousands)[1]	Authorized Rate of Return[1]	Authorized Return on Equity[1]
Atmos Pipeline — Texas	Texas	05/24/2004	$417,111	8.258%	10.00%
Atmos Pipeline — Texas — GRIP	Texas	04/20/2010	799,841	8.258%	10.00%
Colorado-Kansas	Colorado	01/04/2010	86,189	8.57%	10.25%
	Kansas	08/01/2010	144,583	(2)	(2)
Kentucky/Mid-States	Georgia	03/31/2010	88,583[3]	8.61%	10.70%
	Illinois	11/01/2000	24,564	9.18%	11.56%
	Iowa	03/01/2001	5,000	(2)	11.00%
	Kentucky	06/01/2010	184,697	(2)	(2)
	Missouri	09/01/2010	66,459	(2)	(2)
	Tennessee	04/01/2009	190,100	8.24%	10.30%
	Virginia	11/23/2009	36,861	8.48%	9.50% - 10.50%
Louisiana	Trans LA	04/01/2010	96,400	8.22%	10.00% - 10.80%
	LGS	07/01/2010	251,591	8.54%	10.40%
Mid-Tex — Settled Cities	Texas	10/01/2010	(2)	8.19%	9.60%
Mid-Tex — Dallas & Environs	Texas	01/26/2010	1,279,647[4]	8.60%	10.40%
Mid-Tex — Dallas & Environs — GRIP	Texas	09/01/2010	1,283,357[4]	8.60%	10.40%
Mississippi	Mississippi	12/15/2009	227,055	8.27%	10.04%
West Texas	Amarillo	08/01/2010	55,537	8.19%	9.60%
	Lubbock	09/01/2010	57,074	8.19%	9.60%
	West Texas	08/15/2010	135,565	8.19%	9.60%

Division	Jurisdiction	Authorized Debt/ Equity Ratio	Bad Debt Rider[5]	WNA	Performance-Based Rate Program[6]	Customer Meters
Atmos Pipeline — Texas	Texas	50/50	No	N/A	N/A	N/A
Colorado-Kansas	Colorado	50/50	Yes[7]	No	No	110,646
	Kansas	(2)	Yes	Yes	No	128,640
Kentucky/Mid-States	Georgia	52/48	No	Yes	Yes	64,946
	Illinois	67/33	No	No	No	22,868
	Iowa	57/43	No	No	No	4,300
	Kentucky	(2)	Yes	Yes	Yes	176,634
	Missouri	49/51	No	No	No	56,843
	Tennessee	52/48	Yes	Yes	Yes	132,261
	Virginia	51/49	Yes	Yes	No	23,163
Louisiana	Trans LA	52/48	No	Yes	No	76,653
	LGS	52/48	No	Yes	No	277,551
Mid-Tex — Settled Cities	Texas	52/48	Yes	Yes	No	1,236,538
Mid-Tex — Dallas & Environs	Texas	51/49	Yes	Yes	No	309,134
Mississippi	Mississippi	52/48	No	Yes	No	266,233
West Texas	Amarillo	52/48	Yes	Yes	No	70,578
	Lubbock	52/48	Yes	Yes	No	73,810
	West Texas	52/48	Yes	Yes	No	155,242

(1) The rate base, authorized rate of return and authorized return on equity presented in this table are those from the last rate case or GRIP filing for each jurisdiction. These rate bases, rates of return and returns on equity are not necessarily indicative of current or future rate bases, rates of return or returns on equity.

(2) A rate base, rate of return, return on equity or debt/equity ratio was not included in the respective state commission's final decision.

(3) Georgia rate base consists of $60.2 million included in the March 2010 rate case and $28.4 million included in the October 2010 Pipeline Replacement Program (PRP) surcharge. The $28.4 million of the Georgia rate base amount was awarded in the latest PRP annual filing with an effective date of October 1, 2010, an authorized rate of return of 8.56 percent and an authorized return on equity of 10.70 percent.

(4) The Mid-Tex Rate Base amounts for the Dallas & Environs areas represent "system-wide", or 100 percent, of the Mid-Tex Division's rate base.

(5) The bad debt rider allows us to recover from ratepayers the gas cost portion of uncollectible accounts.

(6) The performance-based rate program provides incentives to natural gas utility companies to minimize purchased gas costs by allowing the utility company and its customers to share the purchased gas costs savings.

(7) The recovery of the gas portion of uncollectible accounts gas cost adjustment has been approved for a two-year pilot program.

Atmos Energy Colorado-Kansas Division. Our Colorado-Kansas Division serves approximately 170 communities throughout Colorado and 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.

The following table provides a jurisdictional rate summary for our regulated operations. This information is for regulatory purposes only and may not be representative of our actual financial position.

Division	Jurisdiction	Effective Date of Last Rate/GRIP Action	Rate Base (thousands)[1]	Authorized Rate of Return[1]	Authorized Return on Equity[1]
Atmos Pipeline — Texas	Texas	05/01/2011	$807,733	9.36%	11.80%
Atmos Pipeline — Texas — GRIP	Texas	08/01/2011	816,976	9.36%	11.80%
Colorado-Kansas	Colorado	01/04/2010	86,189	8.57%	10.25%
	Kansas	08/01/2010	144,583	(2)	(2)
Kentucky/Mid-States	Georgia	03/31/2010	96,330[3]	8.61%	10.70%
	Illinois	11/01/2000	24,564	9.18%	11.56%
	Iowa	03/01/2001	5,000	(2)	11.00%
	Kentucky	06/01/2010	208,702[4]	(2)	(2)
	Missouri	09/01/2010	66,459	(2)	(2)
	Tennessee	04/01/2009	190,100	8.24%	10.30%
	Virginia	11/23/2009	36,861	8.48%	9.50% - 10.50%
Louisiana	Trans LA	04/01/2011	93,260	8.37%	10.00% - 10.80%
	LGS	07/01/2011	273,775	8.56%	10.40%
Mid-Tex — Settled Cities	Texas	09/01/2011	1,389,187[5]	8.29%	9.70%
Mid-Tex — Dallas	Texas	06/22/2011	1,268,601[5]	8.45%	10.10%
Mid-Tex — Environs GRIP	Texas	06/27/2011	1,268,601[5]	8.60%	10.40%
Mississippi	Mississippi	04/05/2011	239,197	(2)	9.86%
West Texas	Amarillo	08/01/2011	(2)	(2)	9.60%
	Lubbock	09/09/2011	60,892	8.19%	9.60%
	West Texas	08/01/2011	146,039	8.19%	9.60%

Division	Jurisdiction	Authorized Debt/ Equity Ratio	Bad Debt Rider[6]	WNA	Performance-Based Rate Program[7]	Customer Meters
Atmos Pipeline — Texas	Texas	50/50	No	N/A	N/A	N/A
Colorado-Kansas	Colorado	50/50	Yes[8]	No	No	110,709
	Kansas	(2)	Yes	Yes	No	128,679
Kentucky/Mid-States	Georgia	52/48	No	Yes	Yes	63,897
	Illinois	67/33	No	No	No	22,778
	Iowa	57/43	No	No	No	4,334
	Kentucky	(2)	Yes	Yes	Yes	176,246
	Missouri	49/51	No	No	No	56,643
	Tennessee	52/48	Yes	Yes	Yes	133,634
	Virginia	51/49	Yes	Yes	No	23,310
Louisiana.	Trans LA	52/48	No	Yes	No	75,813
	LGS	52/48	No	Yes	No	277,838
Mid-Tex — Settled Cities	Texas	50/50	Yes	Yes	No	1,259,042
Mid-Tex — Dallas & Environs	Texas	51/49	Yes	Yes	No	314,760
Mississippi	Mississippi	50/50	No	Yes	No	266,074
West Texas	Amarillo	52/48	Yes	Yes	No	70,431
	Lubbock	52/48	Yes	Yes	No	73,748
	West Texas	52/48	Yes	Yes	No	155,255

(1) The rate base, authorized rate of return and authorized return on equity presented in this table are those from the most recent rate case or GRIP filing for each jurisdiction. These rate bases, rates of return and returns on equity are not necessarily indicative of current or future rate bases, rates of return or returns on equity.

(2) A rate base, rate of return, return on equity or debt/equity ratio was not included in the respective state commission's final decision.

(3) Georgia rate base consists of $60.2 million included in the March 2010 rate case and $36.1 million included in the October 2011 Pipeline Replacement Program (PRP) surcharge. A total of $36.1 million of the Georgia rate base amount was awarded in the latest PRP annual filing with an effective date of October 1, 2011, an authorized rate of return of 8.56 percent and an authorized return on equity of 10.70 percent.

(4) Kentucky rate base consists of $184.7 million included in the June 2010 rate case and $24.0 million included in the October 2011 PRP surcharge. A total of $24.0 million of the Kentucky rate base amount was awarded in the latest PRP annual filing with an effective date of October 1, 2011, an authorized rate of return of 8.74 percent and an authorized return on equity of 10.50 percent.

(5) The Mid-Tex Rate Base amounts for the Settled Cities and Dallas & Environs areas represent "system-wide", or 100 percent, of the Mid-Tex Division's rate base.

(6) The bad debt rider allows us to recover from ratepayers the gas cost portion of uncollectible accounts.

(7) The performance-based rate program provides incentives to natural gas utility companies to minimize purchased gas costs by allowing the utility company and its customers to share the purchased gas costs savings.

(8) The recovery of the gas portion of uncollectible accounts gas cost adjustment has been approved for a two-year pilot program.

The following table provides a jurisdictional rate summary for our regulated operations. This information is for regulatory purposes only and may not be representative of our actual financial position.

Division	Jurisdiction	Effective Date of Last Rate/GRIP Action	Rate Base (thousands)[1]	Authorized Rate of Return[1]	Authorized Return on Equity[1]
Atmos Pipeline — Texas	Texas	05/01/2011	$807,733	9.36%	11.80%
Atmos Pipeline — Texas — GRIP	Texas	04/10/2012	879,752	9.36%	11.80%
Colorado-Kansas	Colorado	01/04/2010	86,189	8.57%	10.25%
	Kansas	09/01/2012	160,075	(2)	(2)
Kentucky/Mid-States	Georgia	02/02/2012	96,338[3]	8.61%	10.50% - 10.90%
	Kentucky	06/01/2010	208,702[4]	(2)	(2)
	Tennessee	04/01/2009	190,100	8.24%	10.30%
	Virginia	11/23/2009	36,861	8.48%	9.50% - 10.50%
Louisiana	Trans LA	04/01/2012	100,575	8.24%	10.00% - 10.80%
	LGS	07/01/2012	284,607	8.27%	10.40%
Mid-Tex Cities	Texas	09/01/2011	1,389,187[5]	8.29%	9.70%
Mid-Tex — Dallas	Texas	06/01/2012	1,472,583[5]	8.50%	10.10%
Mid-Tex — Environs GRIP	Texas	06/26/2012	1,449,544[5]	8.60%	10.40%
Mississippi	Mississippi	01/11/2012	274,576	8.06%	9.75%
West Texas	Amarillo[6]	08/01/2011	(2)	(2)	9.60%
	Lubbock[6]	09/09/2011	60,892	8.19%	9.60%
	West Texas[6]	08/01/2011	146,039	8.19%	9.60%

Division	Jurisdiction	Authorized Debt/ Equity Ratio	Bad Debt Rider[7]	WNA	Performance-Based Rate Program[8]	Customer Meters
Atmos Pipeline — Texas	Texas	50/50	No	N/A	N/A	N/A
Colorado-Kansas	Colorado	50/50	Yes[9]	No	No	111,354
	Kansas	(2)	Yes	Yes	No	129,468
Kentucky/Mid-States	Georgia	50/50	No	Yes	Yes	63,707
	Kentucky	(2)	Yes	Yes	Yes	170,608
	Tennessee	52/48	Yes	Yes	Yes	134,927
	Virginia	51/49	Yes	Yes	No	23,335
Louisiana	Trans LA	52/48	No	Yes	No	75,607
	LGS	52/48	No	Yes	No	277,159
Mid-Tex Cities	Texas	50/50	Yes	Yes	No	1,252,548
Mid-Tex — Dallas	Texas	48/52	Yes	Yes	No	250,510
Mid-Tex — Environs	Texas	51/49	Yes	Yes	No	62,627
Mississippi	Mississippi	50/50	No	Yes	No	263,302
West Texas	Amarillo[6]	52/48	Yes	Yes	No	70,258
	Lubbock[6]	52/48	Yes	Yes	No	74,244
	West Texas[6]	52/48	Yes	Yes	No	156,935

(1) The rate base, authorized rate of return and authorized return on equity presented in this table are those from the most recent rate case or GRIP filing for each jurisdiction. These rate bases, rates of return and returns on equity are not necessarily indicative of current or future rate bases, rates of return or returns on equity.

(2) A rate base, rate of return, return on equity or debt/equity ratio was not included in the respective state commission's final decision.

(3) Georgia rate base consists of $60.2 million included in the March 2010 rate case and $36.1 million included in the October 2011 Pipeline Replacement Program (PRP) surcharge. A total of $36.1 million of the Georgia

rate base amount was awarded in the latest PRP annual filing with an effective date of October 1, 2011, an authorized rate of return of 8.68 percent and an authorized return on equity of 10.70 percent.

(4) Kentucky rate base consists of $184.7 million included in the June 2010 rate case and $24.0 million included in the October 2011 PRP surcharge. A total of $24.0 million of the Kentucky rate base amount was awarded in the latest PRP annual filing with an effective date of October 1, 2011, an authorized rate of return of 8.74 percent and an authorized return on equity of 10.50 percent.

(5) The Mid-Tex Rate Base amounts for the Mid-Tex Cities and Dallas & Environs areas represent "system-wide", or 100 percent, of the Mid-Tex Division's rate base.

(6) On October 2, 2012, a rate case settlement was approved by the Texas Railroad Commission that combined the former Amarillo, Lubbock and West Texas jurisdictions into a single "West Texas" jurisdiction.

(7) The bad debt rider allows us to recover from ratepayers the gas cost portion of uncollectible accounts.

(8) The performance-based rate program provides incentives to natural gas utility companies to minimize purchased gas costs by allowing the utility company and its customers to share the purchased gas costs savings.

(9) The recovery of the gas portion of uncollectible accounts gas cost adjustment has been approved for a two-year pilot program.

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 Corporation and operates primarily in the Midwest and Southeast areas of the United States. Currently, this segment represents less than five percent of 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