

**INDEX TO THE DIRECT TESTIMONY
OF CHARLES R. YARBROUGH II, WITNESS FOR
ATMOS ENERGY CORP., MID-TEX DIVISION**

I.	POSITION AND QUALIFICATIONS	2
II.	PURPOSE OF TESTIMONY	3
III.	OVERVIEW OF THE CASE	4
IV.	DESCRIPTION OF THE RATE FILING PACKAGE.....	7
V.	DESCRIPTION OF ORGANIZATION AND SYSTEM.....	8
VI.	COST OF SERVICE ADJUSTMENTS.....	10
VII.	RATE DESIGN	16
VIII.	TARIFFS.....	24
IX.	OTHER CHANGES	24
X.	RATE CASE EXPENSES.....	25
XI.	CONCLUSION.....	27
XII.	AFFIDAVIT	28
XIII.	EXHIBITS	
	EXHIBIT CRY-1 Mid-Tex Division Organization Chart	
	EXHIBIT CRY-2 Notification Of Merger Transaction	
	EXHIBIT CRY-3 Declining Residential Usage Chart	
	EXHIBIT CRY-4 NARUC Resolution	
	EXHIBIT CRY-5 30 Year Weather vs. Actual	
	EXHIBIT CRY-6 Tariffs	
	EXHIBIT CRY-7 Outline Of Proposed Gas Contract Review Process	

1 West Virginia, including its distribution operations. In 1989, I accepted the
2 position of General Counsel for The Maple Gas Corporation in Dallas
3 focusing on regulatory, gas and liquids contracting and other corporate
4 legal responsibilities. In 1993, I joined Lone Star Gas Company as Senior
5 Attorney responsible for rates, regulatory, franchise and general
6 contracting matters. Since 1993, I have held various managerial positions
7 in the rates and regulatory area for Lone Star and its successor
8 companies up to my current position and duties with Atmos as described
9 above.

10 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE RAILROAD
11 COMMISSION OF TEXAS?

12 A. Yes, in GUD Docket No. 9530, I testified to the level and reasonableness
13 of rate case expenses. I have also provided testimony in court and
14 arbitration proceedings and numerous depositions.

15 Q. HAVE YOU PREPARED ANY EXHIBITS WITH YOUR TESTIMONY?

16 A. Yes, Exhibits CRY- 1 - 7 are attached to my testimony.

17 Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR
18 DIRECT SUPERVISION AND CONTROL?

19 A. Yes. All of these exhibits were prepared by me or under my direct
20 supervision and control.

21 II. PURPOSE OF TESTIMONY

22

23 Q. PLEASE STATE THE PURPOSE OF YOUR TESTIMONY IN THIS
24 PROCEEDING.

25 A. My testimony in this proceeding will explain why the Company has filed
26 this rate request and will provide an overview of the case. I will also
27 provide a description of the rate filing package. My testimony will include a
28 physical description of the Mid-Tex system, a description of the corporate
29 structure of Atmos Energy Corporation and Mid-Tex's position within that
30 structure as well as a discussion of the acquisition of TXU Gas by Atmos
31 Energy. I will provide an explanation of why certain adjustments were

1 made to the cost of service. I will also provide a general description of the
2 changes to rate design proposed by the Company in this proceeding. My
3 testimony will additionally describe and discuss the tariffs for gas service
4 proposed by the Company along with a proposal regarding the Company's
5 gas cost review process. Finally, I will describe the Company's process for
6 reviewing and ensuring the reasonableness and necessity of the rate
7 case expenses associated with this filing and recommend that rate case
8 expenses be presented and examined in either a separate docket or a
9 separate phase of the hearing in this docket.
10

11 **III. OVERVIEW OF THE CASE**

12 Q. WHY IS ATMOS ENERGY FILING THIS CASE?

13 A. Atmos Energy has filed this rate case in response to actions by various
14 cities to review and reduce the rates of Mid-Tex. Atmos Energy will show
15 in this filing that its Mid-Tex Division's rates for the twelve months ended
16 December 31, 2005, are inadequate to recover its existing cost of
17 providing service, including a fair and reasonable return. Accordingly,
18 Atmos' current rates should be adjusted upward.

19 Q. WHAT DOES ATMOS ENERGY INTEND TO ACCOMPLISH WITH THIS
20 FILING?

21 A. This filing will provide a new baseline for the Company's revenue
22 requirements for the Mid-Tex system under Atmos Energy ownership as
23 well as a new baseline for future Gas Reliability Infrastructure Program
24 ("GRIP") filings.

25 This filing will also support the initial reasonableness and necessity
26 review under the GRIP statute and rules of the adjustments filed by the
27 Company for its Mid-Tex Division and approved by the Commission on an
28 interim basis for calendar years 2003 and 2004. The Company's recent
29 GRIP filing for calendar year 2005, which Atmos expects to be approved
30 on an interim basis during the pendency of this proceeding, will likewise
31 be reviewed in this case.

1 Atmos Energy is also seeking approval of adjustment mechanisms
2 that will assist in the recovery of its authorized non-gas revenue.

3 The Company is additionally seeking a modification of existing
4 Rider GCR, in order that the uncollectible portion of its actually incurred
5 gas cost can be recovered through the annual reconciliation process. This
6 change would result in the removal of uncollectible expense related to gas
7 cost from base rates. A conforming modification is also needed in Rider
8 GCR to reflect the updated allocation factors for upstream transportation
9 cost allocations.

10 Finally, the Company is seeking approval of procedural and
11 process modifications to the 36-Month Gas Contract Review required of
12 Mid-Tex under the Second Nunc Pro Tunc Order entered by the
13 Commission in GUD 8664.

14 Q. WHAT CHANGE IN RATES WILL THE AVERAGE CUSTOMER
15 EXPERIENCE AS A RESULT OF THE RATES PROPOSED IN THIS
16 FILING?

17 A. The rates proposed in this filing would result in an increase of \$4.71 per
18 month or 7.4% for the average Residential customer served by the
19 Company's Mid-Tex Division; an increase of \$14.57 per month or 3.79%
20 for the average Mid-Tex commercial customer; a decrease of \$1,297.42
21 per month or -3.55% for the average Mid-Tex Industrial customer; and a
22 decrease of \$1,297.42 per month or -43.03% for the average Mid-Tex
23 Standard Transportation Customer. These estimated changes are based
24 on an assumed gas cost of \$8.6452 per Mcf.

25 Q. PLEASE IDENTIFY THE WITNESSES WHO WILL APPEAR ON BEHALF
26 OF THE COMPANY IN THIS PROCEEDING.

27 A. Eleven witnesses will present direct testimony on behalf of the Company
28 in this proceeding. They are: Mr. Daniel Meziere, the Director of
29 Accounting Services for Atmos Energy Corporation; Mr. Jim Cagle,
30 Atmos' Manager of Rates and Revenue Requirements; Ms. Laurie
31 Sherwood, Vice President and Treasurer of Atmos Energy Corporation;

1 Ms. Barbara Myers, Manager of Regulatory Accounting for the Mid-Tex
2 Division; Mr. Jay Joyce, a partner of Alliance Consulting Group; Mr.
3 Michael TheBerge, a principal of RateMaster Utility Services, Inc.; Dr.
4 Donald A. Murry, a Vice President of C.H. Guernsey & Company and
5 Professor Emeritus at the University of Oklahoma ; Dane Watson, another
6 partner of Alliance Consulting Group; Mr. Scott Powell, Vice President,
7 Metro Operations for Mid-Tex; Dr. Bruce Fairchild, a principal of Financial
8 Concepts and Applications Inc.; and me.

9 Q. WHAT SUBJECTS OR AREAS WILL EACH OF THESE WITNESSES
10 ADDRESS?

11 A. Mr. Meziere will testify concerning the integrity of the financial data derived
12 from the Company's books and records, from which the schedules in the
13 rate filing package are derived, and concerning Atmos' compliance with
14 certain of the Commission's substantive rules dealing with books and
15 records, as well as the Company's cost allocation manual and derivation
16 of shared services cost allocation factors.

17 Mr. Cagle will testify concerning the allocation of shared expenses
18 to Mid-Tex, the allocation of investment to provide shared services to Mid-
19 Tex, and adjustments thereto made in this filing.

20 Ms. Sherwood will testify concerning the Company's procurement
21 of property insurance coverage through its insurance affiliate, Blueflame
22 Insurance Services, Ltd, and the reasonableness and necessity of the
23 associated cost.

24 Ms. Myers will provide testimony concerning the ratemaking
25 adjustments in this filing.

26 Mr. Joyce's testimony addresses the cash working capital study
27 prepared in conjunction with this proceeding and the level of cash working
28 capital to be included in rate base.

29 Mr. TheBerge will testify concerning the allocation of cost among
30 customer classes and the rate design proposed by the Company for
31 adoption by the Commission.

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Dr. Murry will testify regarding the Company's capital structure and cost of capital.

Mr. Watson will testify concerning the results of the depreciation study for Mid-Tex and the level of Mid-Tex depreciation expense included in the Company's requested revenue requirement.

Mr. Powell will testify concerning the reasonableness and necessity of the operations and maintenance expenses included in this filing, the net investment included in the 2003 and 2004 GRIP filings, and the net investment included in the Company's recent GRIP filing for 2005.

Dr. Fairchild's testimony will provide a calculation of the Company's federal income tax expense and a summation of its rate base, overall revenue requirement or cost of service, and revenue deficiency.

The scope of my testimony has been previously described.

IV. DESCRIPTION OF RATE FILING PACKAGE

- Q. WHAT IS INCLUDED IN THE COMPANY'S RATE FILING PACKAGE?
- A. The rate filing package consists of a set of cost of service schedules, the Company's direct testimony, a Statement of Intent and proposed Notice, a proposed Protective Order and a cover letter.
- Q. PLEASE DESCRIBE THE COST OF SERVICE SCHEDULES INCLUDED IN THE FILING PACKAGE.
- A. Schedule A provides a summary of the Revenue Requirements by Service Class and Overall. Schedule B provides a summary of the Company's Rate Base. Schedules C through I provide the supporting documentation for the Revenue Requirements described in Schedule A and the proposed rates set forth on Schedule J.
- Q. PLEASE DESCRIBE THE DIRECT TESTIMONY FILED IN THIS PROCEEDING.
- A. The direct testimony filed in this proceeding consists of the prepared direct testimony of each of the witnesses that I have previously described. Each witness' testimony is supported by a sworn affidavit. The Company's

1 testimony includes various schedules and exhibits related to each specific
2 witness' direct testimony.

3 Q. PLEASE DESCRIBE THE STATEMENT OF INTENT FILED IN THIS
4 PROCEEDING.

5 A. The Statement of Intent filed in this proceeding contains all of the
6 elements required by the Gas Utilities Regulatory Act and the
7 Commission's rules.

8

9 **V. DESCRIPTION OF ORGANIZATION AND SYSTEM**

10 Q. PLEASE PROVIDE AN OVERVIEW OF ATMOS ENERGY.

11 A. Atmos Energy, headquartered in Dallas, Texas, is engaged primarily in the
12 regulated natural gas distribution business. Atmos is the country's largest
13 natural-gas-only distributor based on number of customers and is one of
14 the largest intrastate pipeline operators in Texas based on miles of pipe.
15 Atmos distributes natural gas to approximately 3.2 million customers
16 through seven regulated gas utility divisions, which operate in 12 states
17 (Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas,
18 Georgia, Illinois, Iowa, Missouri and Virginia).

19 Atmos' other natural gas businesses primarily provide natural gas
20 management and marketing services to municipalities, other local gas
21 distribution companies and industrial customers in 22 states, along with
22 natural gas transportation and storage services to certain of Atmos' utility
23 divisions and third parties.

24 Q. PLEASE DESCRIBE THE MID-TEX DIVISION.

25 A. Mid-Tex is an unincorporated division of Atmos Energy Corporation, and
26 one of the seven regulated gas utility divisions noted above. A corporate
27 organizational chart showing the corporate structure of Atmos Energy
28 Corporation is included in the Corporate Allocation Manual attached to Mr.
29 Meziere's testimony as Exhibit DMM - 1.

30 Q. PLEASE DESCRIBE THE MID-TEX SYSTEM.

1 A. The Mid-Tex system consists of numerous distribution networks serving
2 approximately 1.5 million customers in approximately 440 incorporated
3 municipalities, unincorporated communities and their environs in over 100
4 counties throughout North Central Texas.

5 These systems are comprised of approximately 28,000 miles of
6 pipe and over 1.4 million service lines, and are primarily used to distribute
7 gas from city gate stations to individual residences or businesses.

8 Q. PLEASE DESCRIBE MID-TEX'S OPERATIONAL ORGANIZATION.

9 A. Mid-Tex's operations are depicted in the organizational chart attached as
10 Exhibit CRY- 1. The field Operations organization performs the operational
11 and maintenance activities for Mid-Tex. This group is split geographically
12 into Metro and Non-Metro service areas. The Metro area is responsible for
13 operations in the Dallas-Fort Worth metropolitan area, while the Non-
14 Metro area is responsible for the remainder of the Division's distribution
15 operations. The Mid-Tex Technical Services group provides engineering,
16 design, project management, measurement, right-of-way and related
17 services. The remainder of the Mid-Tex organization includes Finance,
18 Human Resources, Marketing and Rates and Regulatory.

19 There are also support functions common to all operating divisions of
20 Atmos Energy that provide accounting, corporate finance, legal,
21 information technology, communications, corporate human resources and
22 other corporate support services to Mid-Tex.

23 Q. PLEASE DESCRIBE ANY MAJOR CHANGES IN THE MID-TEX
24 DIVISION SINCE GUD NO. 9400.

25 A. The most significant change is the change in ownership of the assets from
26 TXU Corporation to Atmos Energy Corporation. This change occurred on
27 October 1, 2004 when TXU Gas Company ("TXU Gas") merged with and
28 into Atmos Energy.

29 Q. WAS THE COMMISSION NOTIFIED BY ATMOS OF THIS MERGER?

1 A. Yes. The Company provided the Commission with the required notification
2 in GUD No. 9555. A copy of the notification letter to the Commission is
3 attached as Exhibit CRY - 2.

4 Q. PLEASE DESCRIBE THE SIGNIFICANT CHANGES RESULTING FROM
5 THE MERGER.

6 A. Upon the effective date of the merger, virtually all of the employees of
7 TXU Gas became employees of Atmos Energy and the distribution
8 operations of TXU Gas became known as the Mid-Tex Division of Atmos
9 Energy. However, there have been a number of changes during the
10 continued transition of operations since October 2004.

11 Mid-Tex has converted to Atmos Energy's common computer
12 systems such as those used for accounting functions and payroll. Several
13 systems used by field personnel have also been transitioned to new
14 programs compatible with Atmos Energy's system standards.

15 Further, the customer call center function was transferred from the
16 outsourced provider to Atmos Energy's customer support services, which
17 includes call center services, customer billing, and other customer support
18 services. Atmos has also assumed responsibility for other services that
19 had previously been outsourced, such as information technology,
20 accounting, payroll, and legal. Mid-Tex moved those operations formerly
21 housed with TXU Electric Delivery operations into other Mid-Tex facilities
22 and ten new service centers. Finally, the Mid-Tex divisional and
23 administrative offices moved from downtown Dallas to office space
24 adjacent to Atmos Energy's existing corporate offices in North Dallas.

25 Q. HAVE THE COST IMPACTS OF THESE CHANGES BEEN
26 RECOGNIZED IN THIS FILING?

27 A. Yes. There have been specific adjustments made to the cost of service to
28 reflect these changes. I will discuss the direction that I have provided to
29 Ms. Myers concerning the adjustments in the cost of service in the next
30 section of my testimony.

31

1 **VI. COST OF SERVICE ADJUSTMENTS**

2 Q. PLEASE DESCRIBE THE PROCESS BY WHICH ADJUSTMENTS TO
3 THE COST OF SERVICE ADJUSTMENTS WERE IDENTIFIED AND
4 DEVELOPED.

5 A. During the preparation of the response to the various cities' show cause
6 ordinances and continuing through the preparation of this Statement of
7 Intent filing, a number of meetings were held between the Mid-Tex Rates
8 and Regulatory Affairs Group and me to discuss necessary adjustments to
9 test year numbers. As those discussions progressed, we developed the
10 adjustments that are contained in the cost of service filed in this
11 proceeding.

12 Q. WHAT ADJUSTMENTS DID YOU INSTRUCT MS. MYERS TO INCLUDE
13 IN THIS FILING?

14 A. I asked her to develop adjustments for the transition of services from TXU
15 and CapGemini to Atmos, adjustments to include expenses for the new
16 Marketing organization that is being established for Mid-Tex, adjustments
17 to remove legal expenses related to other regulatory proceedings that
18 have been approved for recovery through surcharges, an adjustment to
19 include the cost of odorant in Account 871, an adjustment to include the
20 operating expenses for the new service centers and Mid-Tex
21 headquarters, an adjustment to contractor expense to reflect a normal
22 level of O & M activity, adjustments for labor related increases,
23 adjustments to remove expenses prohibited from recovery by Commission
24 rules, and an adjustment to include contributions to the Gas Technology
25 Institute (GTI) for research and development work undertaken for the gas
26 industry. I also asked Ms. Myers to calculate an adjustment that could be
27 used to remove the gas component of bad debt from the per books
28 uncollectible expense in the event that Mid-Tex's request to collect such
29 expense through Rider GCR was approved. I further asked Ms. Myers to
30 calculate adjustments to the rate base.

- 1 Q. WHY DID YOU REQUEST AN ADJUSTMENT FOR TXU AND
2 CAPGEMINI EXPENSES?
- 3 A. TXU and CapGemini only provided transitional services to Mid-Tex until
4 October 1, 2005. TXU was not willing to continue providing services
5 beyond that date. The Company was not interested in continuing to
6 outsource certain services provided by CapGemini but did request bids for
7 the remaining CapGemini provided services. Between the closing of the
8 acquisition on October 1, 2004 and October 1, 2005, the services being
9 provided by TXU and CapGemini were transitioned to Atmos Energy or
10 Atmos Energy's outside service providers. Ms. Myers has developed
11 adjustments designed to remove all of the transition costs related to TXU
12 or CapGemini from the test year numbers.
- 13 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO INCLUDE ATMOS
14 ENERGY COSTS RELATED TO SERVICES COVERED BY THE
15 TRANSITION AGREEMENTS?
- 16 A. In order to properly reflect the costs of operating the Mid-Tex Division
17 during the period when the rates will be in effect, it was necessary to
18 adjust the cost of service to include the costs related to transitional
19 services at levels related to how they would be provided in the future. This
20 adjustment is the offset to the adjustment that I just described related to
21 TXU and CapGemini's transition services.
- 22 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO THE COST OF
23 SERVICE FOR THE MARKETING ORGANIZATION'S EXPENSES?
- 24 A. Following the acquisition by Atmos Energy, efforts began to expand the
25 marketing organization for Mid-Tex. Those efforts should result in a fully
26 staffed organization by August, 2006. Because that organization will be in
27 place during the time period that the rates will be in effect, it is appropriate
28 to include the organization's costs in the overall cost of service in this
29 proceeding. Ms. Myers has developed an adjustment to achieve this
30 purpose.

- 1 Q. WHY DID YOU REQUEST THE REMOVAL OF CERTAIN LEGAL
2 EXPENSES FROM THE COST OF SERVICE?
- 3 A. A portion of Mid-Tex's legal expenses have already been approved for
4 recovery through surcharges in other regulatory proceedings. Leaving
5 those legal expenses in the cost of service for this proceeding would result
6 in an inappropriate double recovery of such expenses. Ms. Myers
7 developed an adjustment to remove those legal expenses in order to
8 avoid a double recovery.
- 9 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO THE LEVEL OF
10 EXPENSE FOR ODORANT?
- 11 A. The Audit staff of the Commission instructed Mid-Tex to book odorant
12 expenses to an account other than Account 813 so that this expense
13 would not be recoverable through Rider GCR as a component of gas cost.
14 During the test year, odorant expense was booked to Account 813, so an
15 adjustment was necessary to conform to the instructions of the Audit staff.
16 Later in my testimony, I address the proper account for booking odorant
17 expense and request approval to book this expense to Account 813.
- 18 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO THE COST OF
19 SERVICE FOR THE NEW SERVICE CENTERS AND THE RELOCATION
20 OF THE MID-TEX HEADQUARTERS?
- 21 A. Prior to the acquisition, TXU operated service facilities that housed both
22 electric and gas personnel. Following the acquisition, neither company
23 desired to continue the sharing of facility space with the other because of
24 the difficulties of security and cost sharing. Over the course of the test
25 year, Mid-Tex began developing ten new service centers in order to
26 eliminate the sharing of facilities Ms. Myers has developed an adjustment
27 to properly reflect full year operating costs for all of these new facilities.
28 This will permit the cost of service to adequately represent the level of
29 costs anticipated to exist during the period that the rates will be in effect. I
30 also asked Ms. Myers to calculate the necessary adjustment to reflect the
31 discontinuance of the historic downtown location for Mid-Tex headquarters

- 1 and the full year cost of Mid-Tex headquarters operations at the new
2 Lincoln Center location. This adjustment will properly reflect the cost of
3 headquarters office operation during the period that the rates will be in
4 effect.
- 5 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO CONTRACTOR
6 EXPENSES?
- 7 A. As more fully described by Mr. Powell, in response to the recent warmer
8 than normal winters, Mid-Tex deferred certain operations and
9 maintenance expenses. In order for the cost of service to reflect the level
10 of contractor operations and maintenance expense that would be
11 expected in normal weather years, I requested that Ms. Myers develop an
12 adjustment for contractor expense.
- 13 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO LABOR AND LABOR-
14 RELATED EXPENSES?
- 15 A. Atmos Energy's Board of Directors has approved an overall salary
16 increase for employees equal to 3.5% of existing pro forma payroll to be
17 implemented on October 1, 2006. Because this adjustment is a known and
18 measurable change with reasonable certainty, it is appropriate to adjust
19 the test year cost of service for such labor increases and the related
20 benefits and payroll taxes that are driven by the level of labor expense.
21 Ms. Myers has developed the requested adjustments,
- 22 Q. WHY DID YOU REQUEST AN ADJUSTMENT RELATED TO
23 COMMISSION RULE 16 TAC § 7.5414?
- 24 A. Commission Rule 7.5414 prohibits the inclusion of certain expenses in the
25 cost of service for rate making. In order to comply with the requirements of
26 that rule, I requested Ms. Myers to develop any necessary adjustments to
27 assure compliance with the requirements of that rule. She has developed
28 those adjustments.
- 29 Q. WHY DID YOU REQUEST AN ADJUSTMENT FOR CONTRIBUTIONS
30 TO THE GAS TECHNOLOGY INSTITUTE?

1 A. The Gas Technology Institute conducts research on new products and
2 new technology for the gas industry. Many new products for the gas
3 industry have incorporated GTI-developed technology. An example of
4 such a product is the keyhole repair technology as discussed by Mr.
5 Powell in his direct testimony. GTI helped to perfect keyhole repair
6 technology which eliminates the need to make extensive excavations in
7 public rights-of-way to perform repair work on gas facilities. This allows
8 quicker repairs, less damage to road surfaces and lower paving repair
9 costs. Mid-Tex utilizes this and other GTI-developed technology on its
10 system. The GTI also develops technology for use in gas appliances that
11 offer higher efficiencies. These developments translate into lower
12 expenses for utilities and consumers. The level of expense that I
13 requested Ms. Myers to include in the cost of service is typical of the level
14 of expense by utilities of a similar size to the Mid-Tex Division. Approval of
15 this adjustment will allow continued research into products and
16 technologies that will benefit consumers through more efficient use of
17 natural gas and better operational technologies.

18 Q. WHY DID YOU REQUEST AN ADJUSTMENT FOR UNCOLLECTIBLES?

19 A. As I discuss elsewhere in my testimony, Mid-Tex is proposing to recover
20 the gas cost component of uncollectible expense through Rider GCR. In
21 anticipation of the approval of Mid-Tex's request, I requested Ms. Myers to
22 prepare an adjustment to (1) calculate the total level of uncollectible
23 expense expected under the proposed revenue requirement based on the
24 Company's experience during the test year and (2) to reduce that adjusted
25 uncollectible expense by an amount sufficient to remove the gas cost
26 component of that expense. The difference is the amount that would be
27 included in base rates if the Commission approves the recovery of the gas
28 cost component of uncollectible expense through Rider GCR.

29 Q. WHY DID YOU REQUEST ADJUSTMENTS TO RATE BASE?

30 A. In a typical rate case, there are a number of adjustments to the additions
31 and deductions to rate base that must be made to normalize the level of

1 those items for ratemaking. I asked Ms. Myers to prepare an adjustment
2 reflecting the results of Mr. Joyce's cash working capital study and other
3 adjustments to reflect a 13-month average amount for materials and
4 supplies and for prepayments. Finally, I asked Ms. Myers to adjust rate
5 base to eliminate the investment disallowed by this Commission in GUD
6 9400.

7
8 **VII. RATE DESIGN**

9 Q. PLEASE DESCRIBE THE RATE DESIGN PROPOSALS
10 RECOMMENDED IN THIS PROCEEDING.

11 A. I am recommending that certain changes be made to existing rate design.
12 These changes are necessary and will allow the Company a reasonable
13 opportunity to earn its regulated rate of return. The changes are
14 summarized as follows:

15 (1) increases in the customer charges as well as a change in the first
16 block of the Residential rate;

17 (2) a Weather Normalization Adjustment mechanism;

18 (3) a Revenue Stabilization Adjustment mechanism;

19 (4) the use of 10-year average weather for volume normalization; and

20 (5) recovery of the gas cost component of uncollectible expenses, and
21 odorant expenses through Rider GCR.

22 Q. PLEASE DESCRIBE THE PROPOSED CHANGES IN CUSTOMER
23 CHARGES, METER CHARGES AND THE FIRST BLOCK OF RATE R
24 FROM GUD 9400 AS ADJUSTED BY SUBSEQUENT GRIP FILINGS.

25 A. The Company proposes to set the customer charge for Rate R and Rate C
26 to \$13.50 per month and \$30.00 per month, respectively, and the meter
27 charges, which have been renamed customer charges in this filing, for
28 Rates I and T to \$430.00 per month.

29 The proposed reduction in the size of the first block of Rate R, from
30 3 Mcf to 1.5 Mcf, is being made to better reflect the actual base load of

1 residential customers. Mr. TheBerge discusses all of these rate design
2 changes more fully in his prepared direct testimony.

3 Q. PLEASE DESCRIBE THE WEATHER NORMALIZATION MECHANISM
4 THAT MID-TEX IS PROPOSING FOR APPROVAL IN THIS
5 PROCEEDING.

6 A. This mechanism will correct residential and commercial customers' bills
7 for over-or under-recovery related to variations in the winter weather
8 compared to 10-year average weather.

9 The proposed weather normalization adjustment mechanism will
10 calculate an adjustment for each billing cycle during the months of
11 November through May. The months of November through May represent
12 the months during which Mid-Tex customers typically experience heating
13 loads. The adjustment for each cycle will be based on the difference
14 between 10-year average Heating Degree Days (HDDs) for that cycle and
15 the actual HDDs experienced in that cycle, and will be applied to the
16 heating related billing for each customer. This mechanism is discussed in
17 more detail in Mr.TheBerge's direct testimony

18 Q. WHY IS SUCH AN ADJUSTMENT MECHANISM NEEDED?

19 A. Variations in the weather are not within the control of Atmos Energy and
20 can have significant impacts on the ability of Mid-Tex to earn its
21 authorized return. One of the primary roles of regulators is to permit the
22 utility a reasonable opportunity to earn its authorized return. Over-or
23 under-recoveries, because of the variations in the weather are not fair to
24 utilities or their customers since neither can control the weather. In
25 recognition of this fact, many utilities have received approval from their
26 regulators to include Weather Normalization Adjustment mechanisms in
27 their rate designs. The significance of such risk to a utility has been
28 demonstrated in the Company's Mid-Tex service area during the last two
29 winters which were the second and third warmest winters on record in the
30 Mid-Tex service area and have resulted in revenue shortfalls of \$22 million
31 and \$27 million respectively.

- 1 Q. WOULD THE COMPANY'S CUSTOMERS ALSO BENEFIT FROM A
2 WEATHER NORMALIZATION ADJUSTMENT?
- 3 A. Yes, in colder than normal winters, the proposed adjustment would reduce
4 the amounts billed to residential and commercial customers when
5 compared to rates without such an adjustment.
- 6 Q. PLEASE DESCRIBE THE REVENUE STABILIZATION ADJUSTMENT
7 MECHANISM THAT IS BEING PROPOSED FOR APPROVAL IN THIS
8 PROCEEDING.
- 9 A. The revenue stabilization adjustment mechanism proposed in this
10 proceeding would adjust for any over- or under-recovery of the authorized
11 revenue requirement from each customer class as determined in this
12 proceeding. This adjustment would be calculated separately for a five-
13 month period from November through March (Winter Adjustment Period)
14 and for a seven-month period from April through October (Summer
15 Adjustment Period). The adjustment amounts for each Adjustment period
16 would be recovered over a related Recovery Period by dividing the
17 adjustment amount by the estimated volumes for the Recovery Period. A
18 true-up for over- or under-recovery would assure proper recovery over
19 time. The mechanics of this adjustment are more fully described by Mr.
20 TheBerge in his direct testimony.
- 21 Q. WHY IS A REVENUE STABILIZATION ADJUSTMENT MECHANISM
22 NEEDED?
- 23 A. A revenue stabilization adjustment mechanism is needed to provide
24 Atmos Energy with a reasonable opportunity to earn its authorized return.
25 This adjustment seeks to minimize the Company's over-or under-earnings
26 results caused by the rate design in combination with uncertain per
27 customer gas usage. The Company's rate design includes fixed cost in the
28 usage rate component. As the overall consumption varies from the volume
29 included in the adopted rate design, the Company over-or under-recovers
30 such fixed cost. Protection from over-recovery protects the Company's
31 customers while protection from under-recovery protects the Company

1 and its investors. The Weather Normalization Adjustment proposed in this
2 proceeding addresses a significant contributor to volume variations, the
3 weather. There are, however, other volume variation trends that impact
4 the Company's earnings.

5 One such trend is the Company's largest customer class, which is
6 residential, has been gradually reducing per customer base load
7 consumption volume over recent years. The other customer classes use
8 per customer consumption has been variable and difficult to predict.
9 These variations in use per customer are typically beyond the control of
10 the Company, and impact its ability to earn its authorized return. These
11 factors are discussed in more detail by Mr. TheBerge in his direct
12 testimony.

13 The proposed revenue stabilization adjustment mechanism will
14 allow the Company to adjust its rates to more effectively address the
15 uncertainty of customer consumption levels by (1) protecting the customer
16 from over-recovery, (2) reducing the frequency of expensive rate cases,
17 and (3) providing the Company a reasonable opportunity to earn its
18 authorized return.

19 Q. HAS THE MID-TEX DIVISION EXPERIENCED DECLINING USE PER
20 CUSTOMER?

21 A. Yes. As shown in Exhibit CRY – 3, attached to this testimony, Since 1989
22 the average residential base load use on the Mid-Tex system has declined
23 from 2.172 Mcf per month to 1.395 Mcf per month. While the rate of
24 decline has decreased in recent years, the decline continues.

25 Q. WHAT CAUSES THE DECLINING USE PER RESIDENTIAL
26 CUSTOMER?

27 A. As discussed more fully by Mr. TheBerge in his direct testimony, one factor
28 is the overall improvement in gas appliance efficiency. Another is the
29 general improvement in the thermal efficiency of homes and buildings.
30 Additionally, increases in the cost of natural gas have probably caused
31 some customers to adjust thermostats to more conservative settings.

- 1 Q. WHAT ARE THE ECONOMIC IMPLICATIONS OF THIS LOAD DECLINE
2 FOR THE COMPANY AND ITS CUSTOMERS?
- 3 A. This trend certainly has been positive for our customers. Many of our
4 customers have been able to warm their houses, heat their water, cook
5 their food and dry their clothes using less natural gas. The lower
6 consumption reduces the customer's bill by lowering the largest single
7 component which is the cost of the natural gas itself. This same trend,
8 however, can adversely affect the Company if the rates and tariffs are not
9 adjusted to take this effect into consideration, as the fixed cost incurred
10 by the Company to deliver natural gas service remains unchanged. This
11 trend negatively impacts the Company's reasonable opportunity to earn
12 its authorized return unless considered in rate design.
- 13 Q. DOESN'T A REVENUE STABILIZATION ADJUSTMENT MECHANISM
14 GUARANTEE THE COMPANY WILL EARN ITS AUTHORIZED RATE OF
15 RETURN?
- 16 A. No. The Revenue Stabilization mechanism only adjusts to the authorized
17 revenue established by the Commission adjusted for customer growth. It
18 does not adjust for changes in operations and maintenance expenses
19 over time.
- 20 Further, because the proposed mechanism only adjusts over two
21 extended periods, the utility will generally be trailing in its recovery of its
22 authorized return. As I mentioned earlier, the original adjustment is subject
23 to variations in the estimates used, and those variations will also impact
24 the recovery of the authorized return
- 25 Q. HAVE ANY REGULATORY JURISDICTIONS APPROVED SUCH AN
26 ADJUSTMENT MECHANISM?
- 27 A. Yes. Regulators in Oregon, Maryland, and California have approved these
28 types of adjustment mechanisms, and other regulators are studying such
29 mechanisms. Adoption of such an adjustment mechanism is consistent
30 with a resolution adopted last year by the National Association of
31 Regulatory and Utility Commissioners (NARUC). A copy of the NARUC

1 resolution is attached as Exhibit CRY-4. Each of the mechanisms
2 approved by these regulators is customized for the individual utilities
3 involved, but the basic concepts underlying each mechanism are the
4 same.

5 Q. PLEASE DESCRIBE THE REQUEST TO USE 10-YEAR AVERAGE
6 WEATHER TO NORMALIZE THE TEST YEAR VOLUMES.

7 A. I am recommending use of 10-year average weather for (1) calculating the
8 billing determinants in this proceeding and (2) determining the Weather
9 Normalization Adjustment.

10 Weather in the Company's Mid-Tex service area has become
11 warmer in recent years relative to the weather expected under a 30-year
12 normalized weather. A comparison of 30-year normal weather to actual
13 weather in the Mid-Tex service area is shown on Exhibit CRY - 5. As you
14 can see, the actual weather experienced over the last 10 years has
15 gradually trended warmer than the 30-year normalized weather. This has
16 been accented by the last two winters, which are the second and third
17 warmest winters on record in the service area. Normalizing the test year
18 volumes to the 10-year average weather will result in rates based on
19 volumes that are more likely to occur than 30-year normal weather. The
20 difference in HDDs for 30-year normal weather as compared to 10-year
21 average weather is 2,370 vs. 2,192.

22 Q. DOES USING 10-YEAR AVERAGE WEATHER AFFECT THE COST OF
23 SERVICE?

24 A. No. Use of 10-year average weather only affects the rate design in the
25 dollars per Mcf or MMBtu factors. It does not increase or decrease the
26 overall revenue requirement.

27 Q. PLEASE DESCRIBE THE COMPANY'S REQUEST TO MOVE THE
28 RECOVERY OF THE GAS COST COMPONENT OF UNCOLLECTABLE
29 EXPENSE FROM BASE RATES TO THE GAS COST RECOVERY
30 RIDER.

1 A. All of the Mid-Tex Division's gas costs that are recovered from the
2 customers are currently recovered through the GCR Rider with the
3 exception of the gas cost portion of uncollectible expense. Atmos Energy
4 proposes to treat such gas cost in a manner similar to all other gas costs
5 and recover them through the GCR Rider. What Mid-Tex is proposing
6 here, as was approved by the Commission for Atmos' utility operations in
7 the environs of Amarillo in GUD 9539, is to recover the gas cost
8 component of the uncollectible expense through its gas cost recovery
9 mechanism, rather than as an annualized amount included in base rates.

10 Q. WHY HAS MID-TEX MADE THIS REQUEST?

11 A. There are a number of reasons. First, the Commission's rule on gas cost
12 recovery, 16 TAC § 7.5519(a), contemplates the ability of a gas utility to
13 recover all of its gas costs. Whether actually paid by the customer or part
14 of a delinquent bill that has been written off, the dollars still represent the
15 cost the Company paid to acquire the gas. This conclusion is supported by
16 the Examiner's discussion of the referenced rule in the Examiner's
17 Proposal for Decision in Docket No. 9535. At page 13 of the PFD, the
18 Examiner concludes that "[t]o the extent that a utility can identify
19 unrecovered gas costs, then the utility should be able to recover those
20 costs through an adjustment to the formula [of the PGA]." Thus, all gas
21 costs, whether included in customer revenues or not, would be recovered
22 through the Company's gas cost adjustment mechanism. Second, the
23 proposed treatment is fairer to both the Company and our customers. If
24 uncollectible expenses are included in base rates it is assumed such
25 expenses are representative of ongoing costs. This is not the case for the
26 gas cost component of such costs, which have been volatile. It is
27 reasonable to use actual data when available. As noted earlier, the
28 Company is entitled under Commission regulations to fully recover all of
29 its gas cost. This has not been the case for those gas costs included in
30 uncollectible expenses as a part of the rate base.

- 1 Q. HOW WOULD THE GAS COST COMPONENT OF UNCOLLECTABLE
2 EXPENSE BE RECOVERED?
- 3 A. Mid-Tex's gas costs are currently recovered through its purchased gas
4 adjustment clause ("Rider GCR") in its tariff pursuant to the authority
5 granted by Section 7.5519 of the Railroad Commission's regulations and
6 the Final Order in GUD 9400. The Rider GCR works in tandem with other
7 regulatory requirements such as the annual gas cost reconciliation filings,
8 (together, the "gas cost recovery mechanism") to insure that Mid-Tex bills
9 to its customers the amount of costs incurred to purchase the gas. This
10 annual reconciliation process currently compares what the Company pays
11 for gas to what it bills for gas cost. The Company proposes to change the
12 Rider GCR so that during the annual reconciliation process what the
13 Company pays for gas will be compared to gas cost actually collected.
- 14 This proposed Rider GCR calculates the adjustment to include
15 uncollectible gas cost comparable to that ultimately approved in the Final
16 Order in Docket No. 9539, and allow for its recovery as what it really is,
17 which is gas cost.
- 18 Q. IF THE COMMISSION APPROVES YOUR PROPOSAL, WON'T THAT
19 RESULT IN MID-TEX'S EXPERIENCING LESS RISK AND THEREFORE
20 PROVIDE LESS INCENTIVE FOR THE COMPANY TO PURSUE
21 DELINQUENT ACCOUNTS?
- 22 A. Not at all. The Company would be at risk on any non-gas portion of
23 uncollectible expense in excess of that approved in this proceeding.
24 Further, the reasonableness of the gas cost portion would continue to be
25 subject to review by the Commission in gas cost prudence reviews.
- 26 Q. IS MID-TEX REQUESTING ANY OTHER CHANGES IN RIDER GCR?
- 27 A. Yes. The Company is requesting that the cost of odorant be included as a
28 recoverable gas cost instead of being recovered in base rates. This
29 change will not require any change in the language of Rider GCR. It can
30 be implemented by simply instructing Mid-Tex to account for odorant
31 expense in Account 813.

1 Q. WHERE IS ODORANT CURRENTLY ACCOUNTED FOR?

2 A. Mid-Tex currently books odorant expense to Account 871-Distribution
3 Load Dispatching. That account is being used because the Gas Services
4 Audit staff instructed Mid-Tex to book odorant expense to any account
5 other than Account 813. While Mid-Tex does not consider Account 871 to
6 be a proper place to book such an expense, it appears to be the most
7 appropriate account other than Account 813.

8 Q. WHY DOES MID-TEX CONSIDER ACCOUNT 813 TO BE THE PROPER
9 ACCOUNT FOR ODORANT EXPENSE?

10 A. The amount of odorant injected into the gas stream varies with the flow of
11 gas. Because Mid-Tex is required to inject odorant as a safety compliance
12 matter under Commission Rule 8.215, at a rate that will assure adequate
13 odorization of the gas stream, odorant expense is clearly an expense that
14 will vary with the quantity of gas delivered to customers. Commission Rule
15 7.5519(c) provides that "items of expense that fluctuate with gas costs"
16 may be included in the gas cost recovery mechanism. Account 813, Other
17 Gas Expense, is an account already authorized for recovery under Rider
18 GCR. Therefore, Mid-Tex is proposing the odorant expense be booked to
19 Account 813 and recovered through Rider GCR.

20
21

VIII. TARIFFS

22 Q. PLEASE DESCRIBE THE TARIFFS BEING PROPOSED BY THE
23 COMPANY IN THIS PROCEEDING?

24 A. Atmos Energy is proposing to revise its Rate R, Rate C, Rate I and Rate T
25 in this proceeding. These revisions reflect the new cost of service
26 allocated to each of these customer classes as well as the use of 10-year
27 average weather. It is also proposing new riders for Weather
28 Normalization Adjustment and Revenue Stabilization Adjustment in order
29 to implement the new adjustment mechanisms. The existing Rider GCR is
30 proposed for revision to reflect the recovery of gas cost related to

1 uncollectible expense through this Rider rather than through base rates
2 and to reflect the updated upstream transportation cost allocations.

3 Q. WHERE ARE THESE NEW TARIFFS FOUND IN THE FILING
4 PACKAGE?

5 A. They are all found in Exhibit CRY -6, attached to my testimony.
6

7 **IX. OTHER CHANGES**

8 Q. PLEASE DESCRIBE THE PROPOSED ADDITIONAL PROCEDURES
9 AND PROCESSES RELATED TO THE 36-MONTH GAS CONTRACT
10 REVIEW.

11 A. The Mid-Tex Division proposes that a process be adopted for the filing of
12 an annual gas supply plan with approval of each annual plan in an
13 expedited manner. After a gas supply year is completed, the performance
14 of the Company would be evaluated by comparison to the plan. If the
15 Company executes the approved plan, its gas purchases should be found
16 prudent. An outline of the proposed procedure is set out in Exhibit CRY -7.

17 Q. WHY IS MID-TEX PROPOSING THIS CHANGE?

18 A. No substantive or procedural rules have been adopted by the Commission
19 specifying the standards under which the prudence of Mid-Tex's gas
20 purchases are to be determined or specifying the procedures to be
21 followed in conducting the review. The only direction on this process was
22 adopted by the Commission in 2004 through provisions in the Final Order
23 in GUD 9400. Those directions dealt with the items that should be
24 included by the utility in presenting the case for prudence, but did not
25 establish procedures or standards. Mid-Tex is the only gas utility in Texas
26 required to undergo a prudence review of its gas purchases on any
27 regular basis. Because gas cost represents approximately 75% of a
28 customer's bill on an annual basis and is the portion of the customer's bill
29 that is growing most significantly, it is appropriate for the Commission to
30 provide the Company, interested parties, staff, and intervenors with some
31 guidance on how such reviews should be conducted.

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X. RATE CASE EXPENSES

Q. WHAT IS THE COMPANY'S PROJECTED TOTAL AMOUNT FOR EXPENSES ASSOCIATED WITH THIS PROCEEDING?

A. Mid-Tex has not prepared a projection of total rate case expenses for this proceeding. The Company's outside counsel have provided an estimate for their services but the Company has yet to project expenses for the other activities associated with this case.

Q. PLEASE DESCRIBE GENERALLY THE TYPES OF EXPENSES THAT WILL BE INCURRED BY ATMOS IN THIS PROCEEDING.

A. The Company will incur direct expenses such as copying, faxing, postage and printing expense, certain expenses of an incremental nature for those Company employees that travel from Dallas to Austin to attend pre-hearing conferences and Commission conferences, as well as the expense associated with providing public notice through newspapers and direct mail. Atmos will also incur expenses associated with legal expertise and consulting expertise. All of these categories of expense will continue to be incurred through the duration of this docket.

Q. WHAT FACTORS HAS THE COMMISSION ESTABLISHED FOR REVIEWING AND DETERMINING WHETHER CASE EXPENSES ARE REASONABLE AND NECESSARY?

A. Factors that must be considered are specified in 16 TEX. ADMIN. CODE § 7.5530. Those factors include:
(1) The amount of work done;
(2) The time and labor required to accomplish the work;
(3) The nature, extent, and difficulty of the work done;
(4) The originality of the work;
(5) The charges by others for work of the same or similar nature; and
(6) Any other factors taken into account in setting the amount of compensation.

Q. WHAT ACTIONS HAS MID-TEX TAKEN TO ASSURE THE RATE CASE EXPENSES ARE REASONABLE?

- 1 A. I am responsible for overall case management of this proceeding. Either I
2 or those working at my direction are responsible for the overall preparation
3 and presentation of the case, including management responsibility for
4 outside attorneys, outside consultants, and in-house witnesses as well as
5 my own staff who prepared the Filing Package. We review invoices from
6 outside attorney's and witnesses for the nature of work performed,
7 appropriate billing rates, overall reasonableness and necessary supporting
8 documentation. If an expense does not appear to relate directly to this
9 case, it will not be included as a case expense.
- 10 Q. ARE THERE ANY TYPES OF EXPENSES THAT WILL NOT BE
11 INCLUDED IN THE COMPANY'S REIMBURSEMENT REQUEST?
- 12 A. Yes, luxury expenses such as alcoholic beverages, laundry service, or
13 hotel movie rental will be excluded. The Company will also exclude costs
14 associated with working lunches and non-commercial air travel and will
15 limit reimbursement for the use of any personal vehicles.
- 16 Q. HOW IS THE COMPANY PROPOSING TO HANDLE INTERVENOR
17 EXPENSES?
- 18 A. Atmos is requesting that the amount of expenses incurred by the
19 intervening municipalities that are found to be reasonable and necessarily
20 incurred be included in the total expenses to be recovered from customers.
- 21 Q. HOW DOES MID-TEX PROPOSE THAT THE REASONABLE RATE CASE
22 EXPENSES IN THIS PROCEEDING BE REVIEWED?
- 23 A. Atmos would propose that a separate docket or at least a separate hearing
24 be held after the conclusion of the hearing in this docket during which
25 testimony concerning specific expenses, incurred and estimated, could be
26 presented for review by the Examiners. At that time, testimony can also be
27 presented concerning the appropriate means for recovering rate case
28 expenses form customers.
- 29 **XI. CONCLUSION**
- 30 Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?
- 31 A. Yes, it does.

STATE OF TEXAS §
 §
COUNTY OF DALLAS §

BEFORE ME, the undersigned authority, on this day personally appeared Charles R. Yarbrough II, who, having been placed under oath by me, did depose as follows:

My name is Charles R. Yarbrough II. I am of legal age and a resident of the State of Texas. The foregoing direct testimony and the attached exhibits offered by me are true and correct, and the opinions stated therein are accurate, true and correct.

Charles R. Yarbrough II

SUBSCRIBED AND SWORN TO BEFORE ME by the said Charles R. Yarbrough II this _____ day of _____, 2006.

Notary Public, State of Texas

**INDEX TO THE DIRECT TESTIMONY
OF CHARLES R. YARBROUGH II, WITNESS FOR
ATMOS ENERGY CORP., MID-TEX DIVISION**

I.	POSITION AND QUALIFICATIONS	2
II.	PURPOSE OF TESTIMONY	3
III.	OVERVIEW OF THE CASE	4
IV.	DESCRIPTION OF THE RATE FILING PACKAGE.....	7
V.	DESCRIPTION OF ORGANIZATION AND SYSTEM.....	8
VI.	COST OF SERVICE ADJUSTMENTS.....	10
VII.	RATE DESIGN	16
VIII.	TARIFFS.....	24
IX.	OTHER CHANGES	24
X.	RATE CASE EXPENSES	25
XI.	CONCLUSION.....	27
XII.	AFFIDAVIT	28
XIII.	EXHIBITS	
	EXHIBIT CRY-1 Mid-Tex Division Organization Chart	
	EXHIBIT CRY-2 Notification Of Merger Transaction	
	EXHIBIT CRY-3 Declining Residential Usage Chart	
	EXHIBIT CRY-4 NARUC Resolution	
	EXHIBIT CRY-5 30 Year Weather vs. Actual	
	EXHIBIT CRY-6 Tariffs	
	EXHIBIT CRY-7 Outline Of Proposed Gas Contract Review Process	

1 **DIRECT TESTIMONY OF CHARLES R. YARBROUGH II**

2 **I. POSITION AND QUALIFICATIONS**

3 Q. PLEASE STATE YOUR NAME AND ADDRESS.

4 A. My name is Charles R. Yarbrough II. My business address is 5420 LBJ
5 Freeway, Suite 1800, Dallas, Texas.

6 Q. PLEASE DESCRIBE YOUR PRESENT POSITION AND
7 RESPONSIBILITIES.

8 A. I presently hold the position of Vice President, Rates and Regulatory
9 Affairs for the Mid-Tex Division ("Mid-Tex") of Atmos Energy
10 Corporation(sometimes referred to herein as "Atmos Energy," "Atmos" or
11 the "Company"). Among my responsibilities in that position are the
12 development of rate and regulatory strategy and the management of rate
13 and regulatory activities for Mid-Tex. Those responsibilities also
14 encompass the overall supervision of the preparation and prosecution of
15 this rate filing.

16 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

17 A. I graduated from Oklahoma Baptist University in 1975 with a Bachelors
18 degree in Political Science, Magna Cum Laude, and from the Southern
19 Methodist University School of Law in 1978 with a Juris Doctor degree.
20 Since graduation, I have attended a number of continuing legal education
21 courses on a variety of subjects, including, a wide range of utility rate and
22 regulatory matters.

23 Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.

24 A. Upon graduation from law school, I began working as an Attorney in the
25 Regulatory Section of the Legal Department of Lone Star Gas Company
26 with responsibility for legal matters related to rate cases and other
27 regulatory matters. In mid-1984, I accepted a position as Corporate
28 Counsel for Cabot Corporation in Amarillo with responsibility for rate,
29 regulatory and contract matters for its Texas intrastate pipeline, gathering
30 and processing businesses. In 1987, I became Managing Counsel with
31 added responsibility for regulatory matters related to Cabot's activities in

1 West Virginia, including its distribution operations. In 1989, I accepted the
2 position of General Counsel for The Maple Gas Corporation in Dallas
3 focusing on regulatory, gas and liquids contracting and other corporate
4 legal responsibilities. In 1993, I joined Lone Star Gas Company as Senior
5 Attorney responsible for rates, regulatory, franchise and general
6 contracting matters. Since 1993, I have held various managerial positions
7 in the rates and regulatory area for Lone Star and its successor
8 companies up to my current position and duties with Atmos as described
9 above.

10 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE RAILROAD
11 COMMISSION OF TEXAS?

12 A. Yes, in GUD Docket No. 9530, I testified to the level and reasonableness
13 of rate case expenses. I have also provided testimony in court and
14 arbitration proceedings and numerous depositions.

15 Q. HAVE YOU PREPARED ANY EXHIBITS WITH YOUR TESTIMONY?

16 A. Yes, Exhibits CRY- 1 - 7 are attached to my testimony.

17 Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR
18 DIRECT SUPERVISION AND CONTROL?

19 A. Yes. All of these exhibits were prepared by me or under my direct
20 supervision and control.

21
22 **II. PURPOSE OF TESTIMONY**

23 Q. PLEASE STATE THE PURPOSE OF YOUR TESTIMONY IN THIS
24 PROCEEDING.

25 A. My testimony in this proceeding will explain why the Company has filed
26 this rate request and will provide an overview of the case. I will also
27 provide a description of the rate filing package. My testimony will include a
28 physical description of the Mid-Tex system, a description of the corporate
29 structure of Atmos Energy Corporation and Mid-Tex's position within that
30 structure as well as a discussion of the acquisition of TXU Gas by Atmos
31 Energy. I will provide an explanation of why certain adjustments were

1 made to the cost of service. I will also provide a general description of the
2 changes to rate design proposed by the Company in this proceeding. My
3 testimony will additionally describe and discuss the tariffs for gas service
4 proposed by the Company along with a proposal regarding the Company's
5 gas cost review process. Finally, I will describe the Company's process for
6 reviewing and ensuring the reasonableness and necessity of the rate
7 case expenses associated with this filing and recommend that rate case
8 expenses be presented and examined in either a separate docket or a
9 separate phase of the hearing in this docket.

10
11 **III. OVERVIEW OF THE CASE**

12 Q. WHY IS ATMOS ENERGY FILING THIS CASE?

13 A. Atmos Energy has filed this rate case in response to actions by various
14 cities to review and reduce the rates of Mid-Tex. Atmos Energy will show
15 in this filing that its Mid-Tex Division's rates for the twelve months ended
16 December 31, 2005, are inadequate to recover its existing cost of
17 providing service, including a fair and reasonable return. Accordingly,
18 Atmos' current rates should be adjusted upward.

19 Q. WHAT DOES ATMOS ENERGY INTEND TO ACCOMPLISH WITH THIS
20 FILING?

21 A. This filing will provide a new baseline for the Company's revenue
22 requirements for the Mid-Tex system under Atmos Energy ownership as
23 well as a new baseline for future Gas Reliability Infrastructure Program
24 ("GRIP") filings.

25 This filing will also support the initial reasonableness and necessity
26 review under the GRIP statute and rules of the adjustments filed by the
27 Company for its Mid-Tex Division and approved by the Commission on an
28 interim basis for calendar years 2003 and 2004. The Company's recent
29 GRIP filing for calendar year 2005, which Atmos expects to be approved
30 on an interim basis during the pendency of this proceeding, will likewise
31 be reviewed in this case.

1 Atmos Energy is also seeking approval of adjustment mechanisms
2 that will assist in the recovery of its authorized non-gas revenue.

3 The Company is additionally seeking a modification of existing
4 Rider GCR, in order that the uncollectible portion of its actually incurred
5 gas cost can be recovered through the annual reconciliation process. This
6 change would result in the removal of uncollectible expense related to gas
7 cost from base rates. A conforming modification is also needed in Rider
8 GCR to reflect the updated allocation factors for upstream transportation
9 cost allocations.

10 Finally, the Company is seeking approval of procedural and
11 process modifications to the 36-Month Gas Contract Review required of
12 Mid-Tex under the Second Nunc Pro Tunc Order entered by the
13 Commission in GUD 8664.

14 Q. WHAT CHANGE IN RATES WILL THE AVERAGE CUSTOMER
15 EXPERIENCE AS A RESULT OF THE RATES PROPOSED IN THIS
16 FILING?

17 A. The rates proposed in this filing would result in an increase of \$4.71 per
18 month or 7.4% for the average Residential customer served by the
19 Company's Mid-Tex Division; an increase of \$14.57 per month or 3.79%
20 for the average Mid-Tex commercial customer; a decrease of \$1,297.42
21 per month or -3.55% for the average Mid-Tex Industrial customer; and a
22 decrease of \$1,297.42 per month or -43.03% for the average Mid-Tex
23 Standard Transportation Customer. These estimated changes are based
24 on an assumed gas cost of \$8.6452 per Mcf.

25 Q. PLEASE IDENTIFY THE WITNESSES WHO WILL APPEAR ON BEHALF
26 OF THE COMPANY IN THIS PROCEEDING.

27 A. Eleven witnesses will present direct testimony on behalf of the Company
28 in this proceeding. They are: Mr. Daniel Meziere, the Director of
29 Accounting Services for Atmos Energy Corporation; Mr. Jim Cagle,
30 Atmos' Manager of Rates and Revenue Requirements; Ms. Laurie
31 Sherwood, Vice President and Treasurer of Atmos Energy Corporation;

1 Ms. Barbara Myers, Manager of Regulatory Accounting for the Mid-Tex
2 Division; Mr. Jay Joyce, a partner of Alliance Consulting Group; Mr.
3 Michael TheBerge, a principal of RateMaster Utility Services, Inc.; Dr.
4 Donald A. Murry, a Vice President of C.H. Guernsey & Company and
5 Professor Emeritus at the University of Oklahoma ; Dane Watson, another
6 partner of Alliance Consulting Group; Mr. Scott Powell, Vice President,
7 Metro Operations for Mid-Tex; Dr. Bruce Fairchild, a principal of Financial
8 Concepts and Applications Inc.; and me.

9 Q. WHAT SUBJECTS OR AREAS WILL EACH OF THESE WITNESSES
10 ADDRESS?

11 A. Mr. Meziere will testify concerning the integrity of the financial data derived
12 from the Company's books and records, from which the schedules in the
13 rate filing package are derived, and concerning Atmos' compliance with
14 certain of the Commission's substantive rules dealing with books and
15 records, as well as the Company's cost allocation manual and derivation
16 of shared services cost allocation factors.

17 Mr. Cagle will testify concerning the allocation of shared expenses
18 to Mid-Tex, the allocation of investment to provide shared services to Mid-
19 Tex, and adjustments thereto made in this filing.

20 Ms. Sherwood will testify concerning the Company's procurement
21 of property insurance coverage through its insurance affiliate, Blueflame
22 Insurance Services, Ltd, and the reasonableness and necessity of the
23 associated cost.

24 Ms. Myers will provide testimony concerning the ratemaking
25 adjustments in this filing.

26 Mr. Joyce's testimony addresses the cash working capital study
27 prepared in conjunction with this proceeding and the level of cash working
28 capital to be included in rate base.

29 Mr. TheBerge will testify concerning the allocation of cost among
30 customer classes and the rate design proposed by the Company for
31 adoption by the Commission.

1 Dr. Murry will testify regarding the Company's capital structure and
2 cost of capital.

3 Mr. Watson will testify concerning the results of the depreciation
4 study for Mid-Tex and the level of Mid-Tex depreciation expense included
5 in the Company's requested revenue requirement.

6 Mr. Powell will testify concerning the reasonableness and necessity
7 of the operations and maintenance expenses included in this filing, the net
8 investment included in the 2003 and 2004 GRIP filings, and the net
9 investment included in the Company's recent GRIP filing for 2005.

10 Dr. Fairchild's testimony will provide a calculation of the Company's
11 federal income tax expense and a summation of its rate base, overall
12 revenue requirement or cost of service, and revenue deficiency.

13 The scope of my testimony has been previously described.
14

15 **IV. DESCRIPTION OF RATE FILING PACKAGE**

16 Q. WHAT IS INCLUDED IN THE COMPANY'S RATE FILING PACKAGE?

17 A. The rate filing package consists of a set of cost of service schedules, the
18 Company's direct testimony, a Statement of Intent and proposed Notice, a
19 proposed Protective Order and a cover letter.

20 Q. PLEASE DESCRIBE THE COST OF SERVICE SCHEDULES INCLUDED
21 IN THE FILING PACKAGE.

22 A. Schedule A provides a summary of the Revenue Requirements by Service
23 Class and Overall. Schedule B provides a summary of the Company's
24 Rate Base. Schedules C through I provide the supporting documentation
25 for the Revenue Requirements described in Schedule A and the proposed
26 rates set forth on Schedule J.

27 Q. PLEASE DESCRIBE THE DIRECT TESTIMONY FILED IN THIS
28 PROCEEDING.

29 A. The direct testimony filed in this proceeding consists of the prepared direct
30 testimony of each of the witnesses that I have previously described. Each
31 witness' testimony is supported by a sworn affidavit. The Company's

1 testimony includes various schedules and exhibits related to each specific
2 witness' direct testimony.

3 Q. PLEASE DESCRIBE THE STATEMENT OF INTENT FILED IN THIS
4 PROCEEDING.

5 A. The Statement of Intent filed in this proceeding contains all of the
6 elements required by the Gas Utilities Regulatory Act and the
7 Commission's rules.

8

9 **V. DESCRIPTION OF ORGANIZATION AND SYSTEM**

10 Q. PLEASE PROVIDE AN OVERVIEW OF ATMOS ENERGY.

11 A. Atmos Energy, headquartered in Dallas, Texas, is engaged primarily in the
12 regulated natural gas distribution business. Atmos is the country's largest
13 natural-gas-only distributor based on number of customers and is one of
14 the largest intrastate pipeline operators in Texas based on miles of pipe.
15 Atmos distributes natural gas to approximately 3.2 million customers
16 through seven regulated gas utility divisions, which operate in 12 states
17 (Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, Texas,
18 Georgia, Illinois, Iowa, Missouri and Virginia).

19 Atmos' other natural gas businesses primarily provide natural gas
20 management and marketing services to municipalities, other local gas
21 distribution companies and industrial customers in 22 states, along with
22 natural gas transportation and storage services to certain of Atmos' utility
23 divisions and third parties.

24 Q. PLEASE DESCRIBE THE MID-TEX DIVISION.

25 A. Mid-Tex is an unincorporated division of Atmos Energy Corporation, and
26 one of the seven regulated gas utility divisions noted above. A corporate
27 organizational chart showing the corporate structure of Atmos Energy
28 Corporation is included in the Corporate Allocation Manual attached to Mr.
29 Meziere's testimony as Exhibit DMM - 1.

30 Q. PLEASE DESCRIBE THE MID-TEX SYSTEM.

1 A. The Mid-Tex system consists of numerous distribution networks serving
2 approximately 1.5 million customers in approximately 440 incorporated
3 municipalities, unincorporated communities and their environs in over 100
4 counties throughout North Central Texas.

5 These systems are comprised of approximately 28,000 miles of
6 pipe and over 1.4 million service lines, and are primarily used to distribute
7 gas from city gate stations to individual residences or businesses.

8 Q. PLEASE DESCRIBE MID-TEX'S OPERATIONAL ORGANIZATION.

9 A. Mid-Tex's operations are depicted in the organizational chart attached as
10 Exhibit CRY- 1. The field Operations organization performs the operational
11 and maintenance activities for Mid-Tex. This group is split geographically
12 into Metro and Non-Metro service areas. The Metro area is responsible for
13 operations in the Dallas-Fort Worth metropolitan area, while the Non-
14 Metro area is responsible for the remainder of the Division's distribution
15 operations. The Mid-Tex Technical Services group provides engineering,
16 design, project management, measurement, right-of-way and related
17 services. The remainder of the Mid-Tex organization includes Finance,
18 Human Resources, Marketing and Rates and Regulatory.

19 There are also support functions common to all operating divisions of
20 Atmos Energy that provide accounting, corporate finance, legal,
21 information technology, communications, corporate human resources and
22 other corporate support services to Mid-Tex.

23 Q. PLEASE DESCRIBE ANY MAJOR CHANGES IN THE MID-TEX
24 DIVISION SINCE GUD NO. 9400.

25 A. The most significant change is the change in ownership of the assets from
26 TXU Corporation to Atmos Energy Corporation. This change occurred on
27 October 1, 2004 when TXU Gas Company ("TXU Gas") merged with and
28 into Atmos Energy.

29 Q. WAS THE COMMISSION NOTIFIED BY ATMOS OF THIS MERGER?

1 A. Yes. The Company provided the Commission with the required notification
2 in GUD No. 9555. A copy of the notification letter to the Commission is
3 attached as Exhibit CRY - 2.

4 Q. PLEASE DESCRIBE THE SIGNIFICANT CHANGES RESULTING FROM
5 THE MERGER.

6 A. Upon the effective date of the merger, virtually all of the employees of
7 TXU Gas became employees of Atmos Energy and the distribution
8 operations of TXU Gas became known as the Mid-Tex Division of Atmos
9 Energy. However, there have been a number of changes during the
10 continued transition of operations since October 2004.

11 Mid-Tex has converted to Atmos Energy's common computer
12 systems such as those used for accounting functions and payroll. Several
13 systems used by field personnel have also been transitioned to new
14 programs compatible with Atmos Energy's system standards.

15 Further, the customer call center function was transferred from the
16 outsourced provider to Atmos Energy's customer support services, which
17 includes call center services, customer billing, and other customer support
18 services. Atmos has also assumed responsibility for other services that
19 had previously been outsourced, such as information technology,
20 accounting, payroll, and legal. Mid-Tex moved those operations formerly
21 housed with TXU Electric Delivery operations into other Mid-Tex facilities
22 and ten new service centers. Finally, the Mid-Tex divisional and
23 administrative offices moved from downtown Dallas to office space
24 adjacent to Atmos Energy's existing corporate offices in North Dallas.

25 Q. HAVE THE COST IMPACTS OF THESE CHANGES BEEN
26 RECOGNIZED IN THIS FILING?

27 A. Yes. There have been specific adjustments made to the cost of service to
28 reflect these changes. I will discuss the direction that I have provided to
29 Ms. Myers concerning the adjustments in the cost of service in the next
30 section of my testimony.

31

VI. COST OF SERVICE ADJUSTMENTS

1
2 Q. PLEASE DESCRIBE THE PROCESS BY WHICH ADJUSTMENTS TO
3 THE COST OF SERVICE ADJUSTMENTS WERE IDENTIFIED AND
4 DEVELOPED.

5 A. During the preparation of the response to the various cities' show cause
6 ordinances and continuing through the preparation of this Statement of
7 Intent filing, a number of meetings were held between the Mid-Tex Rates
8 and Regulatory Affairs Group and me to discuss necessary adjustments to
9 test year numbers. As those discussions progressed, we developed the
10 adjustments that are contained in the cost of service filed in this
11 proceeding.

12 Q. WHAT ADJUSTMENTS DID YOU INSTRUCT MS. MYERS TO INCLUDE
13 IN THIS FILING?

14 A. I asked her to develop adjustments for the transition of services from TXU
15 and CapGemini to Atmos, adjustments to include expenses for the new
16 Marketing organization that is being established for Mid-Tex, adjustments
17 to remove legal expenses related to other regulatory proceedings that
18 have been approved for recovery through surcharges, an adjustment to
19 include the cost of odorant in Account 871, an adjustment to include the
20 operating expenses for the new service centers and Mid-Tex
21 headquarters, an adjustment to contractor expense to reflect a normal
22 level of O & M activity, adjustments for labor related increases,
23 adjustments to remove expenses prohibited from recovery by Commission
24 rules, and an adjustment to include contributions to the Gas Technology
25 Institute (GTI) for research and development work undertaken for the gas
26 industry. I also asked Ms. Myers to calculate an adjustment that could be
27 used to remove the gas component of bad debt from the per books
28 uncollectible expense in the event that Mid-Tex's request to collect such
29 expense through Rider GCR was approved. I further asked Ms. Myers to
30 calculate adjustments to the rate base.

- 1 Q. WHY DID YOU REQUEST AN ADJUSTMENT FOR TXU AND
2 CAPGEMINI EXPENSES?
- 3 A. TXU and CapGemini only provided transitional services to Mid-Tex until
4 October 1, 2005. TXU was not willing to continue providing services
5 beyond that date. The Company was not interested in continuing to
6 outsource certain services provided by CapGemini but did request bids for
7 the remaining CapGemini provided services. Between the closing of the
8 acquisition on October 1, 2004 and October 1, 2005, the services being
9 provided by TXU and CapGemini were transitioned to Atmos Energy or
10 Atmos Energy's outside service providers. Ms. Myers has developed
11 adjustments designed to remove all of the transition costs related to TXU
12 or CapGemini from the test year numbers.
- 13 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO INCLUDE ATMOS
14 ENERGY COSTS RELATED TO SERVICES COVERED BY THE
15 TRANSITION AGREEMENTS?
- 16 A. In order to properly reflect the costs of operating the Mid-Tex Division
17 during the period when the rates will be in effect, it was necessary to
18 adjust the cost of service to include the costs related to transitional
19 services at levels related to how they would be provided in the future. This
20 adjustment is the offset to the adjustment that I just described related to
21 TXU and CapGemini's transition services.
- 22 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO THE COST OF
23 SERVICE FOR THE MARKETING ORGANIZATION'S EXPENSES?
- 24 A. Following the acquisition by Atmos Energy, efforts began to expand the
25 marketing organization for Mid-Tex. Those efforts should result in a fully
26 staffed organization by August, 2006. Because that organization will be in
27 place during the time period that the rates will be in effect, it is appropriate
28 to include the organization's costs in the overall cost of service in this
29 proceeding. Ms. Myers has developed an adjustment to achieve this
30 purpose.

1 Q. WHY DID YOU REQUEST THE REMOVAL OF CERTAIN LEGAL
2 EXPENSES FROM THE COST OF SERVICE?
3 A. A portion of Mid-Tex's legal expenses have already been approved for
4 recovery through surcharges in other regulatory proceedings. Leaving
5 those legal expenses in the cost of service for this proceeding would result
6 in an inappropriate double recovery of such expenses. Ms. Myers
7 developed an adjustment to remove those legal expenses in order to
8 avoid a double recovery.

9 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO THE LEVEL OF
10 EXPENSE FOR ODORANT?
11 A. The Audit staff of the Commission instructed Mid-Tex to book odorant
12 expenses to an account other than Account 813 so that this expense
13 would not be recoverable through Rider GCR as a component of gas cost.
14 During the test year, odorant expense was booked to Account 813, so an
15 adjustment was necessary to conform to the instructions of the Audit staff.
16 Later in my testimony, I address the proper account for booking odorant
17 expense and request approval to book this expense to Account 813.

18 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO THE COST OF
19 SERVICE FOR THE NEW SERVICE CENTERS AND THE RELOCATION
20 OF THE MID-TEX HEADQUARTERS?
21 A. Prior to the acquisition, TXU operated service facilities that housed both
22 electric and gas personnel. Following the acquisition, neither company
23 desired to continue the sharing of facility space with the other because of
24 the difficulties of security and cost sharing. Over the course of the test
25 year, Mid-Tex began developing ten new service centers in order to
26 eliminate the sharing of facilities Ms. Myers has developed an adjustment
27 to properly reflect full year operating costs for all of these new facilities.
28 This will permit the cost of service to adequately represent the level of
29 costs anticipated to exist during the period that the rates will be in effect. I
30 also asked Ms. Myers to calculate the necessary adjustment to reflect the
31 discontinuance of the historic downtown location for Mid-Tex headquarters

1 and the full year cost of Mid-Tex headquarters operations at the new
2 Lincoln Center location. This adjustment will properly reflect the cost of
3 headquarters office operation during the period that the rates will be in
4 effect.

5 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO CONTRACTOR
6 EXPENSES?

7 A. As more fully described by Mr. Powell, in response to the recent warmer
8 than normal winters, Mid-Tex deferred certain operations and
9 maintenance expenses. In order for the cost of service to reflect the level
10 of contractor operations and maintenance expense that would be
11 expected in normal weather years, I requested that Ms. Myers develop an
12 adjustment for contractor expense.

13 Q. WHY DID YOU REQUEST AN ADJUSTMENT TO LABOR AND LABOR-
14 RELATED EXPENSES?

15 A. Atmos Energy's Board of Directors has approved an overall salary
16 increase for employees equal to 3.5% of existing pro forma payroll to be
17 implemented on October 1, 2006. Because this adjustment is a known and
18 measurable change with reasonable certainty, it is appropriate to adjust
19 the test year cost of service for such labor increases and the related
20 benefits and payroll taxes that are driven by the level of labor expense.
21 Ms. Myers has developed the requested adjustments,

22 Q. WHY DID YOU REQUEST AN ADJUSTMENT RELATED TO
23 COMMISSION RULE 16 TAC § 7.5414?

24 A. Commission Rule 7.5414 prohibits the inclusion of certain expenses in the
25 cost of service for rate making. In order to comply with the requirements of
26 that rule, I requested Ms. Myers to develop any necessary adjustments to
27 assure compliance with the requirements of that rule. She has developed
28 those adjustments.

29 Q. WHY DID YOU REQUEST AN ADJUSTMENT FOR CONTRIBUTIONS
30 TO THE GAS TECHNOLOGY INSTITUTE?

1 A. The Gas Technology Institute conducts research on new products and
2 new technology for the gas industry. Many new products for the gas
3 industry have incorporated GTI-developed technology. An example of
4 such a product is the keyhole repair technology as discussed by Mr.
5 Powell in his direct testimony. GTI helped to perfect keyhole repair
6 technology which eliminates the need to make extensive excavations in
7 public rights-of-way to perform repair work on gas facilities. This allows
8 quicker repairs, less damage to road surfaces and lower paving repair
9 costs. Mid-Tex utilizes this and other GTI-developed technology on its
10 system. The GTI also develops technology for use in gas appliances that
11 offer higher efficiencies. These developments translate into lower
12 expenses for utilities and consumers. The level of expense that I
13 requested Ms. Myers to include in the cost of service is typical of the level
14 of expense by utilities of a similar size to the Mid-Tex Division. Approval of
15 this adjustment will allow continued research into products and
16 technologies that will benefit consumers through more efficient use of
17 natural gas and better operational technologies.

18 Q. WHY DID YOU REQUEST AN ADJUSTMENT FOR UNCOLLECTIBLES?

19 A. As I discuss elsewhere in my testimony, Mid-Tex is proposing to recover
20 the gas cost component of uncollectible expense through Rider GCR. In
21 anticipation of the approval of Mid-Tex's request, I requested Ms. Myers to
22 prepare an adjustment to (1) calculate the total level of uncollectible
23 expense expected under the proposed revenue requirement based on the
24 Company's experience during the test year and (2) to reduce that adjusted
25 uncollectible expense by an amount sufficient to remove the gas cost
26 component of that expense. The difference is the amount that would be
27 included in base rates if the Commission approves the recovery of the gas
28 cost component of uncollectible expense through Rider GCR.

29 Q. WHY DID YOU REQUEST ADJUSTMENTS TO RATE BASE?

30 A. In a typical rate case, there are a number of adjustments to the additions
31 and deductions to rate base that must be made to normalize the level of

1 those items for ratemaking. I asked Ms. Myers to prepare an adjustment
2 reflecting the results of Mr. Joyce's cash working capital study and other
3 adjustments to reflect a 13-month average amount for materials and
4 supplies and for prepayments. Finally, I asked Ms. Myers to adjust rate
5 base to eliminate the investment disallowed by this Commission in GUD
6 9400.

7
8 **VII. RATE DESIGN**

9 Q. PLEASE DESCRIBE THE RATE DESIGN PROPOSALS
10 RECOMMENDED IN THIS PROCEEDING.

11 A. I am recommending that certain changes be made to existing rate design.
12 These changes are necessary and will allow the Company a reasonable
13 opportunity to earn its regulated rate of return. The changes are
14 summarized as follows:

15 (1) increases in the customer charges as well as a change in the first
16 block of the Residential rate;

17 (2) a Weather Normalization Adjustment mechanism;

18 (3) a Revenue Stabilization Adjustment mechanism;

19 (4) the use of 10-year average weather for volume normalization; and

20 (5) recovery of the gas cost component of uncollectible expenses, and
21 odorant expenses through Rider GCR.

22 Q. PLEASE DESCRIBE THE PROPOSED CHANGES IN CUSTOMER
23 CHARGES, METER CHARGES AND THE FIRST BLOCK OF RATE R
24 FROM GUD 9400 AS ADJUSTED BY SUBSEQUENT GRIP FILINGS.

25 A. The Company proposes to set the customer charge for Rate R and Rate C
26 to \$13.50 per month and \$30.00 per month, respectively, and the meter
27 charges, which have been renamed customer charges in this filing, for
28 Rates I and T to \$430.00 per month.

29 The proposed reduction in the size of the first block of Rate R, from
30 3 Mcf to 1.5 Mcf, is being made to better reflect the actual base load of

1 residential customers. Mr. TheBerge discusses all of these rate design
2 changes more fully in his prepared direct testimony.

3 Q. PLEASE DESCRIBE THE WEATHER NORMALIZATION MECHANISM
4 THAT MID-TEX IS PROPOSING FOR APPROVAL IN THIS
5 PROCEEDING.

6 A. This mechanism will correct residential and commercial customers' bills
7 for over-or under-recovery related to variations in the winter weather
8 compared to 10-year average weather.

9 The proposed weather normalization adjustment mechanism will
10 calculate an adjustment for each billing cycle during the months of
11 November through May. The months of November through May represent
12 the months during which Mid-Tex customers typically experience heating
13 loads. The adjustment for each cycle will be based on the difference
14 between 10-year average Heating Degree Days (HDDs) for that cycle and
15 the actual HDDs experienced in that cycle, and will be applied to the
16 heating related billing for each customer. This mechanism is discussed in
17 more detail in Mr.TheBerge's direct testimony

18 Q. WHY IS SUCH AN ADJUSTMENT MECHANISM NEEDED?

19 A. Variations in the weather are not within the control of Atmos Energy and
20 can have significant impacts on the ability of Mid-Tex to earn its
21 authorized return. One of the primary roles of regulators is to permit the
22 utility a reasonable opportunity to earn its authorized return. Over-or
23 under-recoveries, because of the variations in the weather are not fair to
24 utilities or their customers since neither can control the weather. In
25 recognition of this fact, many utilities have received approval from their
26 regulators to include Weather Normalization Adjustment mechanisms in
27 their rate designs. The significance of such risk to a utility has been
28 demonstrated in the Company's Mid-Tex service area during the last two
29 winters which were the second and third warmest winters on record in the
30 Mid-Tex service area and have resulted in revenue shortfalls of \$22 million
31 and \$27 million respectively.

- 1 Q. WOULD THE COMPANY'S CUSTOMERS ALSO BENEFIT FROM A
2 WEATHER NORMALIZATION ADJUSTMENT?
- 3 A. Yes, in colder than normal winters, the proposed adjustment would reduce
4 the amounts billed to residential and commercial customers when
5 compared to rates without such an adjustment.
- 6 Q. PLEASE DESCRIBE THE REVENUE STABILIZATION ADJUSTMENT
7 MECHANISM THAT IS BEING PROPOSED FOR APPROVAL IN THIS
8 PROCEEDING.
- 9 A. The revenue stabilization adjustment mechanism proposed in this
10 proceeding would adjust for any over- or under-recovery of the authorized
11 revenue requirement from each customer class as determined in this
12 proceeding. This adjustment would be calculated separately for a five-
13 month period from November through March (Winter Adjustment Period)
14 and for a seven-month period from April through October (Summer
15 Adjustment Period). The adjustment amounts for each Adjustment period
16 would be recovered over a related Recovery Period by dividing the
17 adjustment amount by the estimated volumes for the Recovery Period. A
18 true-up for over- or under-recovery would assure proper recovery over
19 time. The mechanics of this adjustment are more fully described by Mr.
20 TheBerge in his direct testimony.
- 21 Q. WHY IS A REVENUE STABILIZATION ADJUSTMENT MECHANISM
22 NEEDED?
- 23 A. A revenue stabilization adjustment mechanism is needed to provide
24 Atmos Energy with a reasonable opportunity to earn its authorized return.
25 This adjustment seeks to minimize the Company's over-or under-earnings
26 results caused by the rate design in combination with uncertain per
27 customer gas usage. The Company's rate design includes fixed cost in the
28 usage rate component. As the overall consumption varies from the volume
29 included in the adopted rate design, the Company over-or under-recovers
30 such fixed cost. Protection from over-recovery protects the Company's
31 customers while protection from under-recovery protects the Company

1 and its investors. The Weather Normalization Adjustment proposed in this
2 proceeding addresses a significant contributor to volume variations, the
3 weather. There are, however, other volume variation trends that impact
4 the Company's earnings.

5 One such trend is the Company's largest customer class, which is
6 residential, has been gradually reducing per customer base load
7 consumption volume over recent years. The other customer classes use
8 per customer consumption has been variable and difficult to predict.
9 These variations in use per customer are typically beyond the control of
10 the Company, and impact its ability to earn its authorized return. These
11 factors are discussed in more detail by Mr. TheBerge in his direct
12 testimony.

13 The proposed revenue stabilization adjustment mechanism will
14 allow the Company to adjust its rates to more effectively address the
15 uncertainty of customer consumption levels by (1) protecting the customer
16 from over-recovery, (2) reducing the frequency of expensive rate cases,
17 and (3) providing the Company a reasonable opportunity to earn its
18 authorized return.

19 Q. HAS THE MID-TEX DIVISION EXPERIENCED DECLINING USE PER
20 CUSTOMER?

21 A. Yes. As shown in Exhibit CRY – 3, attached to this testimony, Since 1989
22 the average residential base load use on the Mid-Tex system has declined
23 from 2.172 Mcf per month to 1.395 Mcf per month. While the rate of
24 decline has decreased in recent years, the decline continues.

25 Q. WHAT CAUSES THE DECLINING USE PER RESIDENTIAL
26 CUSTOMER?

27 A. As discussed more fully by Mr. TheBerge in his direct testimony, one factor
28 is the overall improvement in gas appliance efficiency. Another is the
29 general improvement in the thermal efficiency of homes and buildings.
30 Additionally, increases in the cost of natural gas have probably caused
31 some customers to adjust thermostats to more conservative settings.

- 1 Q. WHAT ARE THE ECONOMIC IMPLICATIONS OF THIS LOAD DECLINE
2 FOR THE COMPANY AND ITS CUSTOMERS?
- 3 A. This trend certainly has been positive for our customers. Many of our
4 customers have been able to warm their houses, heat their water, cook
5 their food and dry their clothes using less natural gas. The lower
6 consumption reduces the customer's bill by lowering the largest single
7 component which is the cost of the natural gas itself. This same trend,
8 however, can adversely affect the Company if the rates and tariffs are not
9 adjusted to take this effect into consideration, as the fixed cost incurred
10 by the Company to deliver natural gas service remains unchanged. This
11 trend negatively impacts the Company's reasonable opportunity to earn
12 its authorized return unless considered in rate design.
- 13 Q. DOESN'T A REVENUE STABILIZATION ADJUSTMENT MECHANISM
14 GUARANTEE THE COMPANY WILL EARN ITS AUTHORIZED RATE OF
15 RETURN?
- 16 A. No. The Revenue Stabilization mechanism only adjusts to the authorized
17 revenue established by the Commission adjusted for customer growth. It
18 does not adjust for changes in operations and maintenance expenses
19 over time.
- 20 Further, because the proposed mechanism only adjusts over two
21 extended periods, the utility will generally be trailing in its recovery of its
22 authorized return. As I mentioned earlier, the original adjustment is subject
23 to variations in the estimates used, and those variations will also impact
24 the recovery of the authorized return
- 25 Q. HAVE ANY REGULATORY JURISDICTIONS APPROVED SUCH AN
26 ADJUSTMENT MECHANISM?
- 27 A. Yes. Regulators in Oregon, Maryland, and California have approved these
28 types of adjustment mechanisms, and other regulators are studying such
29 mechanisms. Adoption of such an adjustment mechanism is consistent
30 with a resolution adopted last year by the National Association of
31 Regulatory and Utility Commissioners (NARUC). A copy of the NARUC

1 resolution is attached as Exhibit CRY-4. Each of the mechanisms
2 approved by these regulators is customized for the individual utilities
3 involved, but the basic concepts underlying each mechanism are the
4 same.

5 Q. PLEASE DESCRIBE THE REQUEST TO USE 10-YEAR AVERAGE
6 WEATHER TO NORMALIZE THE TEST YEAR VOLUMES.

7 A. I am recommending use of 10-year average weather for (1) calculating the
8 billing determinants in this proceeding and (2) determining the Weather
9 Normalization Adjustment.

10 Weather in the Company's Mid-Tex service area has become
11 warmer in recent years relative to the weather expected under a 30-year
12 normalized weather. A comparison of 30-year normal weather to actual
13 weather in the Mid-Tex service area is shown on Exhibit CRY - 5. As you
14 can see, the actual weather experienced over the last 10 years has
15 gradually trended warmer than the 30-year normalized weather. This has
16 been accented by the last two winters, which are the second and third
17 warmest winters on record in the service area. Normalizing the test year
18 volumes to the 10-year average weather will result in rates based on
19 volumes that are more likely to occur than 30-year normal weather. The
20 difference in HDDs for 30-year normal weather as compared to 10-year
21 average weather is 2,370 vs. 2,192.

22 Q. DOES USING 10-YEAR AVERAGE WEATHER AFFECT THE COST OF
23 SERVICE?

24 A. No. Use of 10-year average weather only affects the rate design in the
25 dollars per Mcf or MMBtu factors. It does not increase or decrease the
26 overall revenue requirement.

27 Q. PLEASE DESCRIBE THE COMPANY'S REQUEST TO MOVE THE
28 RECOVERY OF THE GAS COST COMPONENT OF UNCOLLECTABLE
29 EXPENSE FROM BASE RATES TO THE GAS COST RECOVERY
30 RIDER.

1 A. All of the Mid-Tex Division's gas costs that are recovered from the
2 customers are currently recovered through the GCR Rider with the
3 exception of the gas cost portion of uncollectible expense. Atmos Energy
4 proposes to treat such gas cost in a manner similar to all other gas costs
5 and recover them through the GCR Rider. What Mid-Tex is proposing
6 here, as was approved by the Commission for Atmos' utility operations in
7 the environs of Amarillo in GUD 9539, is to recover the gas cost
8 component of the uncollectible expense through its gas cost recovery
9 mechanism, rather than as an annualized amount included in base rates.

10 Q. WHY HAS MID-TEX MADE THIS REQUEST?

11 A. There are a number of reasons. First, the Commission's rule on gas cost
12 recovery, 16 TAC § 7.5519(a), contemplates the ability of a gas utility to
13 recover all of its gas costs. Whether actually paid by the customer or part
14 of a delinquent bill that has been written off, the dollars still represent the
15 cost the Company paid to acquire the gas. This conclusion is supported by
16 the Examiner's discussion of the referenced rule in the Examiner's
17 Proposal for Decision in Docket No. 9535. At page 13 of the PFD, the
18 Examiner concludes that "[t]o the extent that a utility can identify
19 unrecovered gas costs, then the utility should be able to recover those
20 costs through an adjustment to the formula [of the PGA]." Thus, all gas
21 costs, whether included in customer revenues or not, would be recovered
22 through the Company's gas cost adjustment mechanism. Second, the
23 proposed treatment is fairer to both the Company and our customers. If
24 uncollectible expenses are included in base rates it is assumed such
25 expenses are representative of ongoing costs. This is not the case for the
26 gas cost component of such costs, which have been volatile. It is
27 reasonable to use actual data when available. As noted earlier, the
28 Company is entitled under Commission regulations to fully recover all of
29 its gas cost. This has not been the case for those gas costs included in
30 uncollectible expenses as a part of the rate base.

- 1 Q. HOW WOULD THE GAS COST COMPONENT OF UNCOLLECTABLE
2 EXPENSE BE RECOVERED?
- 3 A. Mid-Tex's gas costs are currently recovered through its purchased gas
4 adjustment clause ("Rider GCR") in its tariff pursuant to the authority
5 granted by Section 7.5519 of the Railroad Commission's regulations and
6 the Final Order in GUD 9400. The Rider GCR works in tandem with other
7 regulatory requirements such as the annual gas cost reconciliation filings,
8 (together, the "gas cost recovery mechanism") to insure that Mid-Tex bills
9 to its customers the amount of costs incurred to purchase the gas. This
10 annual reconciliation process currently compares what the Company pays
11 for gas to what it bills for gas cost. The Company proposes to change the
12 Rider GCR so that during the annual reconciliation process what the
13 Company pays for gas will be compared to gas cost actually collected.
- 14 This proposed Rider GCR calculates the adjustment to include
15 uncollectible gas cost comparable to that ultimately approved in the Final
16 Order in Docket No. 9539, and allow for its recovery as what it really is,
17 which is gas cost.
- 18 Q. IF THE COMMISSION APPROVES YOUR PROPOSAL, WON'T THAT
19 RESULT IN MID-TEX'S EXPERIENCING LESS RISK AND THEREFORE
20 PROVIDE LESS INCENTIVE FOR THE COMPANY TO PURSUE
21 DELINQUENT ACCOUNTS?
- 22 A. Not at all. The Company would be at risk on any non-gas portion of
23 uncollectible expense in excess of that approved in this proceeding.
24 Further, the reasonableness of the gas cost portion would continue to be
25 subject to review by the Commission in gas cost prudence reviews.
- 26 Q. IS MID-TEX REQUESTING ANY OTHER CHANGES IN RIDER GCR?
- 27 A. Yes. The Company is requesting that the cost of odorant be included as a
28 recoverable gas cost instead of being recovered in base rates. This
29 change will not require any change in the language of Rider GCR. It can
30 be implemented by simply instructing Mid-Tex to account for odorant
31 expense in Account 813.

1 Q. WHERE IS ODORANT CURRENTLY ACCOUNTED FOR?

2 A. Mid-Tex currently books odorant expense to Account 871-Distribution
3 Load Dispatching. That account is being used because the Gas Services
4 Audit staff instructed Mid-Tex to book odorant expense to any account
5 other than Account 813. While Mid-Tex does not consider Account 871 to
6 be a proper place to book such an expense, it appears to be the most
7 appropriate account other than Account 813.

8 Q. WHY DOES MID-TEX CONSIDER ACCOUNT 813 TO BE THE PROPER
9 ACCOUNT FOR ODORANT EXPENSE?

10 A. The amount of odorant injected into the gas stream varies with the flow of
11 gas. Because Mid-Tex is required to inject odorant as a safety compliance
12 matter under Commission Rule 8.215, at a rate that will assure adequate
13 odorization of the gas stream, odorant expense is clearly an expense that
14 will vary with the quantity of gas delivered to customers. Commission Rule
15 7.5519(c) provides that "items of expense that fluctuate with gas costs"
16 may be included in the gas cost recovery mechanism. Account 813, Other
17 Gas Expense, is an account already authorized for recovery under Rider
18 GCR. Therefore, Mid-Tex is proposing the odorant expense be booked to
19 Account 813 and recovered through Rider GCR.

20

21

VIII. TARIFFS

22 Q. PLEASE DESCRIBE THE TARIFFS BEING PROPOSED BY THE
23 COMPANY IN THIS PROCEEDING?

24 A. Atmos Energy is proposing to revise its Rate R, Rate C, Rate I and Rate T
25 in this proceeding. These revisions reflect the new cost of service
26 allocated to each of these customer classes as well as the use of 10-year
27 average weather. It is also proposing new riders for Weather
28 Normalization Adjustment and Revenue Stabilization Adjustment in order
29 to implement the new adjustment mechanisms. The existing Rider GCR is
30 proposed for revision to reflect the recovery of gas cost related to

1 uncollectible expense through this Rider rather than through base rates
2 and to reflect the updated upstream transportation cost allocations.

3 Q. WHERE ARE THESE NEW TARIFFS FOUND IN THE FILING
4 PACKAGE?

5 A. They are all found in Exhibit CRY -6, attached to my testimony.
6

7 **IX. OTHER CHANGES**

8 Q. PLEASE DESCRIBE THE PROPOSED ADDITIONAL PROCEDURES
9 AND PROCESSES RELATED TO THE 36-MONTH GAS CONTRACT
10 REVIEW.

11 A. The Mid-Tex Division proposes that a process be adopted for the filing of
12 an annual gas supply plan with approval of each annual plan in an
13 expedited manner. After a gas supply year is completed, the performance
14 of the Company would be evaluated by comparison to the plan. If the
15 Company executes the approved plan, its gas purchases should be found
16 prudent. An outline of the proposed procedure is set out in Exhibit CRY -7.

17 Q. WHY IS MID-TEX PROPOSING THIS CHANGE?

18 A. No substantive or procedural rules have been adopted by the Commission
19 specifying the standards under which the prudence of Mid-Tex's gas
20 purchases are to be determined or specifying the procedures to be
21 followed in conducting the review. The only direction on this process was
22 adopted by the Commission in 2004 through provisions in the Final Order
23 in GUD 9400. Those directions dealt with the items that should be
24 included by the utility in presenting the case for prudence, but did not
25 establish procedures or standards. Mid-Tex is the only gas utility in Texas
26 required to undergo a prudence review of its gas purchases on any
27 regular basis. Because gas cost represents approximately 75% of a
28 customer's bill on an annual basis and is the portion of the customer's bill
29 that is growing most significantly, it is appropriate for the Commission to
30 provide the Company, interested parties, staff, and intervenors with some
31 guidance on how such reviews should be conducted.

1 X. RATE CASE EXPENSES

2 Q. WHAT IS THE COMPANY'S PROJECTED TOTAL AMOUNT FOR
3 EXPENSES ASSOCIATED WITH THIS PROCEEDING?

4 A. Mid-Tex has not prepared a projection of total rate case expenses for this
5 proceeding. The Company's outside counsel have provided an estimate
6 for their services but the Company has yet to project expenses for the
7 other activities associated with this case.

8 Q. PLEASE DESCRIBE GENERALLY THE TYPES OF EXPENSES THAT
9 WILL BE INCURRED BY ATMOS IN THIS PROCEEDING.

10 A. The Company will incur direct expenses such as copying, faxing, postage
11 and printing expense, certain expenses of an incremental nature for those
12 Company employees that travel from Dallas to Austin to attend pre-hearing
13 conferences and Commission conferences, as well as the expense
14 associated with providing public notice through newspapers and direct
15 mail. Atmos will also incur expenses associated with legal expertise and
16 consulting expertise. All of these categories of expense will continue to be
17 incurred through the duration of this docket.

18 Q. WHAT FACTORS HAS THE COMMISSION ESTABLISHED FOR
19 REVIEWING AND DETERMINING WHETHER CASE EXPENSES ARE
20 REASONABLE AND NECESSARY?

21 A. Factors that must be considered are specified in 16 TEX. ADMIN. CODE §
22 7.5530. Those factors include:
23 (1) The amount of work done;
24 (2) The time and labor required to accomplish the work;
25 (3) The nature, extent, and difficulty of the work done;
26 (4) The originality of the work;
27 (5) The charges by others for work of the same or similar nature; and
28 (6) Any other factors taken into account in setting the amount of
29 compensation.

30 Q. WHAT ACTIONS HAS MID-TEX TAKEN TO ASSURE THE RATE CASE
31 EXPENSES ARE REASONABLE?

1 A. I am responsible for overall case management of this proceeding. Either I
2 or those working at my direction are responsible for the overall preparation
3 and presentation of the case, including management responsibility for
4 outside attorneys, outside consultants, and in-house witnesses as well as
5 my own staff who prepared the Filing Package. We review invoices from
6 outside attorney's and witnesses for the nature of work performed,
7 appropriate billing rates, overall reasonableness and necessary supporting
8 documentation. If an expense does not appear to relate directly to this
9 case, it will not be included as a case expense.

10 Q. ARE THERE ANY TYPES OF EXPENSES THAT WILL NOT BE
11 INCLUDED IN THE COMPANY'S REIMBURSEMENT REQUEST?

12 A. Yes, luxury expenses such as alcoholic beverages, laundry service, or
13 hotel movie rental will be excluded. The Company will also exclude costs
14 associated with working lunches and non-commercial air travel and will
15 limit reimbursement for the use of any personal vehicles.

16 Q. HOW IS THE COMPANY PROPOSING TO HANDLE INTERVENOR
17 EXPENSES?

18 A. Atmos is requesting that the amount of expenses incurred by the
19 intervening municipalities that are found to be reasonable and necessarily
20 incurred be included in the total expenses to be recovered from customers.

21 Q. HOW DOES MID-TEX PROPOSE THAT THE REASONABLE RATE CASE
22 EXPENSES IN THIS PROCEEDING BE REVIEWED?

23 A. Atmos would propose that a separate docket or at least a separate hearing
24 be held after the conclusion of the hearing in this docket during which
25 testimony concerning specific expenses, incurred and estimated, could be
26 presented for review by the Examiners. At that time, testimony can also be
27 presented concerning the appropriate means for recovering rate case
28 expenses form customers.

29 **XI. CONCLUSION**


30 Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

31 A. Yes, it does.

STATE OF TEXAS §
 §
COUNTY OF DALLAS §

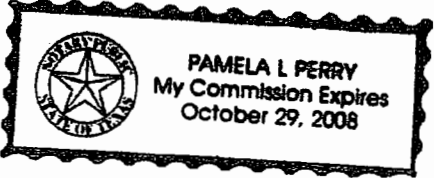
BEFORE ME, the undersigned authority, on this day personally appeared Charles R. Yarbrough, II, who, having been placed under oath by me, did depose and state as follows:

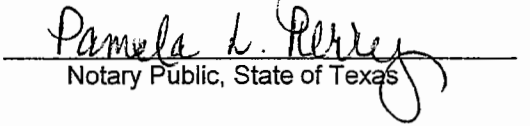
My name is Charles R. Yarbrough, II. I hereby swear and affirm that I am competent, of legal age, and a resident of the State of Texas; that the foregoing direct testimony and attached exhibits were prepared by me or under my direct supervision; that I have personal knowledge of the factual matters stated therein; and that said testimony and exhibits are true and correct.



Charles R. Yarbrough, II

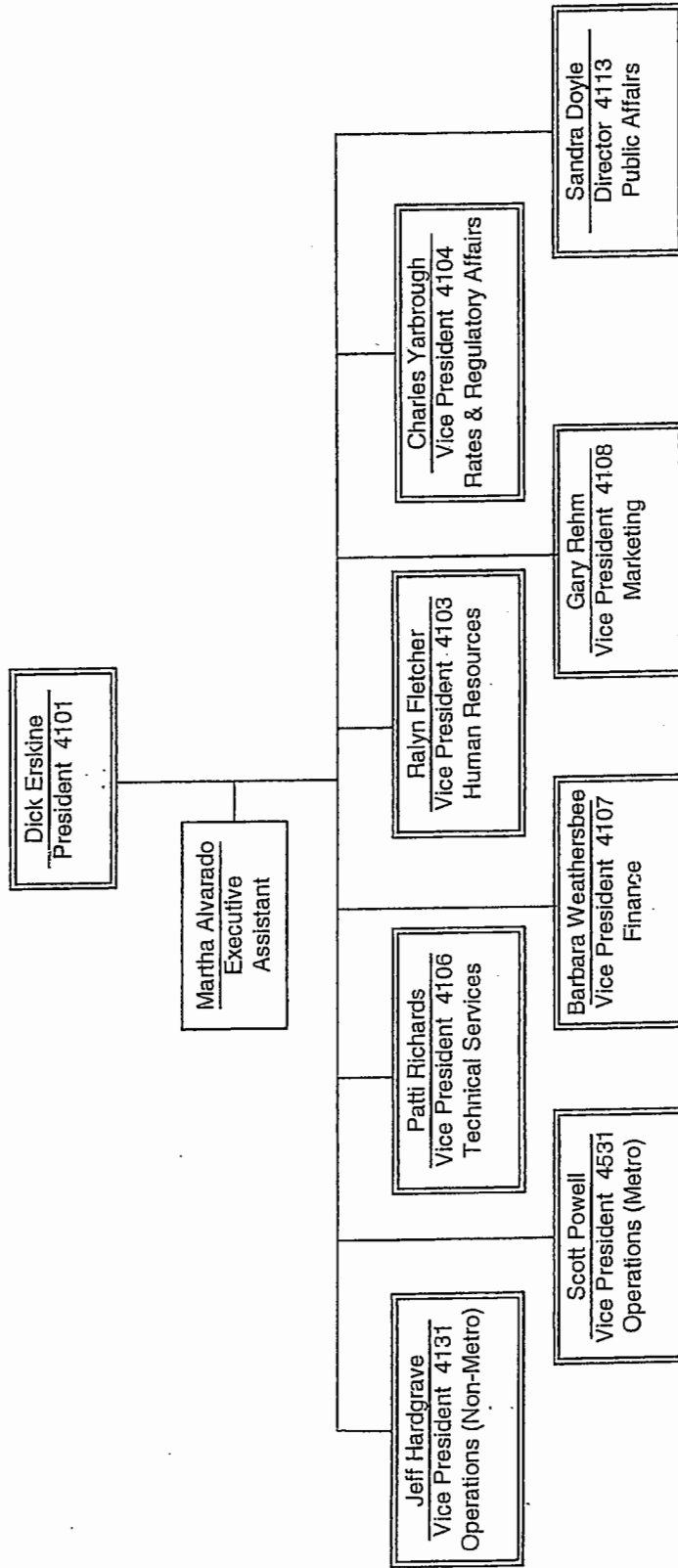
SUBSCRIBED AND SWORN TO BEFORE ME by the said Charles R. Yarbrough, II this 24th day of May, 2006.





Notary Public, State of Texas

Mid-Tex Division



April 30, 2006

11-22-04 12:28 From-

T-111 P.02/03 F-815



R. Earl Fischer
Senior Vice President
Utility Operations

November 22, 2004

Mr. Stephen L. Pitner
Railroad Commission of Texas
Division Director
Gas Utilities Division
P.O. Drawer 12967
Austin, TX 78711-2967

Re: Notification of Merger Transaction

Dear Mr. Pitner:

In accordance with the provisions of Section 102.051 of the Texas Utilities Code, Atmos Energy Corporation ("Atmos") provides the following Notification of Merger Transaction (the "Notification"). Atmos provides this Notification on behalf of itself and TXU Gas Company LP ("TXU Gas"),¹ which has approved this Notification. Please be advised of the following:

Pursuant to an Agreement and Plan of Merger dated June 17, 2004, as amended effective October 1, 2004 (the "Agreement"), TXU Gas merged with LSG Acquisition Corporation ("LSG"), a wholly-owned subsidiary of Atmos. Both TXU Gas and LSG survived the merger. As result of the merger, TXU Gas received consideration of approximately \$1.905 billion and retained certain Excluded Assets and Retained Liabilities (as defined in the Agreement). LSG acquired by merger all other assets and liabilities held by TXU Gas immediately prior to the merger. Immediately thereafter, LSG merged with and into its ultimate parent entity, Atmos, with Atmos being the survivor.

The transactions described above include all of the natural gas pipeline transmission, distribution, and storage assets of TXU Gas, together with all

¹ TXU Gas is not a formal reporting entity under Texas Utilities Code §102.051 because the merger transaction does not constitute a "sale" of assets and because LSG was not a "gas utility" at the time of the merger.

11-22-04 12:28 From-

T-111 P.03/03 F-615

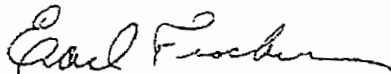
Mr. Stephen L. Pitner
November 22, 2004
Page 2

real property, personal property, contract rights, licenses, permits, franchises, computer software and all other property rights and interests more particularly described in the Agreement and related schedules. The assets include approximately 26,400 miles of intrastate distribution pipelines, 6,100 miles of transmission pipeline, and five natural gas storage reservoirs connected to the pipelines with a working capacity of 38 Bcf.

The pipeline and storage assets formerly held by TXU Gas Company are now held by Atmos Pipeline - Texas (an unincorporated division of Atmos). The distribution assets formerly held by TXU Gas Company are now held by Atmos Energy - Mid-Tex Division (an unincorporated division of Atmos).

Atmos is excited about the merger transaction and looks forward to working with the Commission to ensure that our customers receive safe and reliable gas transmission and distribution service. If you have any questions regarding the merger transaction, please feel free to call Doug Walther, Senior Attorney, Atmos Energy Corporation at 972-855-3102. Please direct any questions concerning TXU Gas to Paul Plunkett, Senior Vice President, Regulatory Affairs at 214-812-5070.

Sincerely,

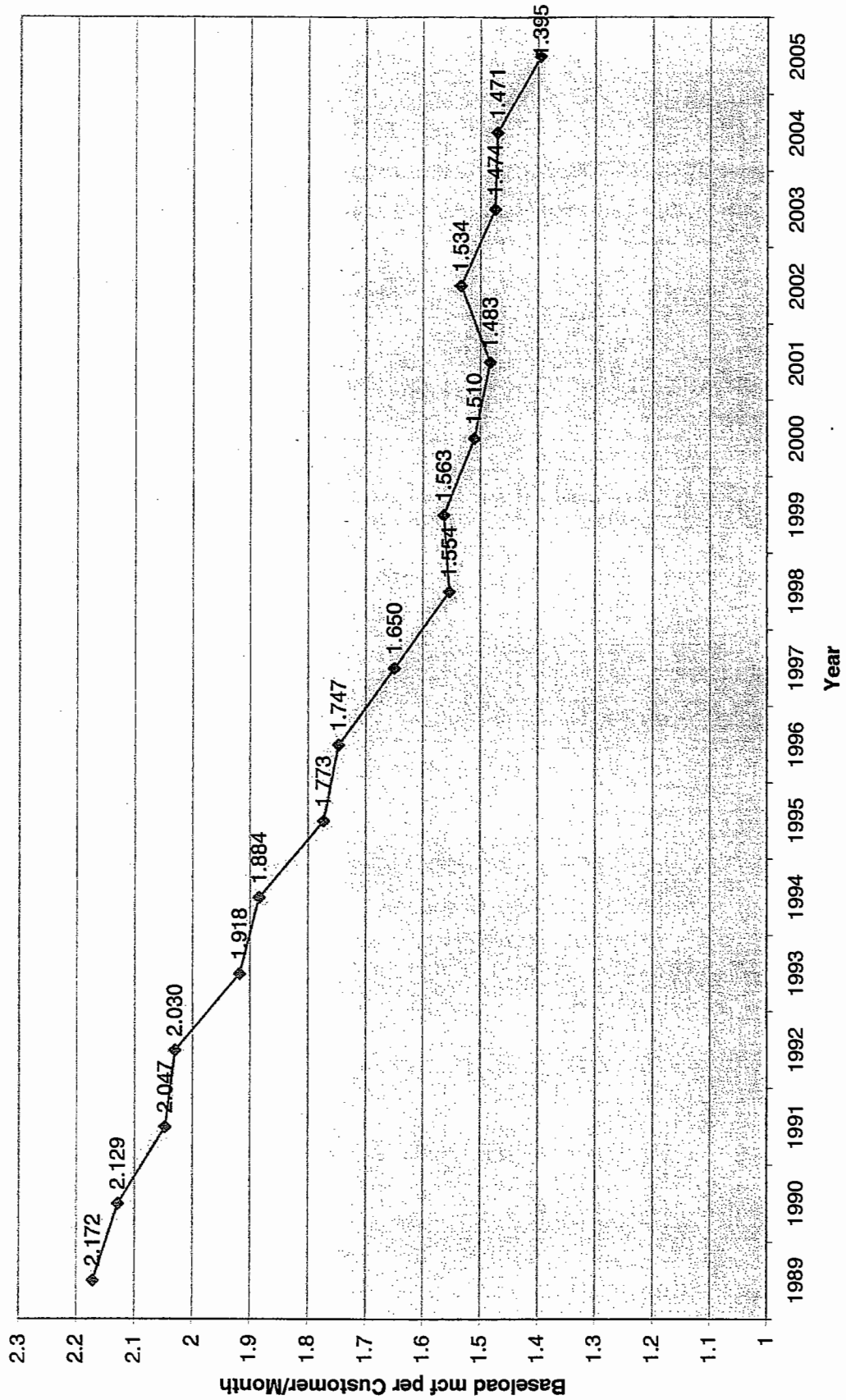


R. Earl Fischer
Senior Vice President
Utility Operations
Atmos Energy Corporation

cc: Ed Abrahamson
Assistant Director Audit

Bill Geise
Director-Market Oversight Section

Residential Baseload



Resolution on Energy Efficiency and Innovative Rate Design

WHEREAS, The National Association of Regulatory Utility Commissioners (NARUC), at its July 2003 Summer Meetings, adopted a *Resolution on State Commission Responses to the Natural Gas Supply Situation* that encouraged State and Federal regulatory commissions to review the incentives for existing gas and electric utility programs designed to promote and aggressively implement cost-effective conservation, energy efficiency, weatherization, and demand response; *and*

WHEREAS, The NARUC at its November 2003 annual convention, adopted a *Resolution Adopting Natural Gas Information "Toolkit"*, which encouraged the NARUC Natural Gas Task Force to review the findings and recommendations of the September 23, 2003 report by the National Petroleum Council on *Balancing Natural Gas Policy – Fueling the Demands of a Growing Economy* and its recommendations for improving and promoting energy efficiency and conservation initiatives; *and*

WHEREAS, The NARUC at its 2004 Summer Meetings, adopted a *Resolution on Gas and Electric Energy Efficiency* encouraging State commissions and other policy makers to support expansion of energy efficiency programs, including consumer education, weatherization, and energy efficiency and to address regulatory incentives to inefficient use of gas and electricity; *and*

WHEREAS, these NARUC initiatives were prompted by the substantial increases in the price of natural gas in wholesale markets during the 2000-2003 period when compared to the more moderate prices that prevailed throughout the 1990s; *and*

WHEREAS, the wholesale natural gas prices of the last five years largely reflect the fact that the demand by consumers for natural gas has been growing steadily while, for a variety of reasons, the supply of natural gas has had difficulty keeping pace, leading to a situation where natural gas demand and supply are narrowly in balance and where even modest increases in demand produce sharp increases in price; *and*

WHEREAS, Hurricanes Katrina and Rita, in addition to devastating the States of Alabama, Mississippi, Louisiana, and Texas, significantly damaged the nation's onshore and offshore energy infrastructure, resulting in significant interruption in the production and delivery of both oil and natural gas in the Gulf Coast area; *and*

WHEREAS, the confluence of a tight balance of natural gas supply and demand and these natural disasters has driven natural gas prices in wholesale prices to unprecedented levels; *and*

WHEREAS, the present high and unprecedented level of natural gas prices are imposing significant burdens on the nation's natural gas consumers, whether residential, commercial, or industrial and will likely be injurious to the nation's economy as a whole; *and*

WHEREAS, the recently enacted Energy Policy Act of 2005 contains a number of provisions aimed at encouraging further natural gas production in order to bring prices for consumers down, but these actions, together with any further action on energy issues by Congress, are unlikely to bring forth additional supplies of natural gas in the short term; *and*

WHEREAS, energy conservation and energy efficiency are, in the short term, the actions most likely to reduce upward pressure on natural gas prices and to assist in bringing energy prices down, to the benefit of all natural gas consumers; *and*

WHEREAS, state-approved natural gas utility rates have traditionally been designed on a volumetric basis, a form of rate design adopted during a period where the structure, regulation, and dynamics of the natural gas industry were dramatically different from today and during an era when transmission and distribution costs, rather than gas commodity costs, were the largest portion of customers' bills; *and*

WHEREAS, volumetric forms of rate design tend to create a misalignment between the interests of natural gas utilities and the goals of energy efficiency and energy conservation; *now therefore be it*

RESOLVED, That the Board of Directors of NARUC, convened in its 2005 Fall Meeting, in Palm Springs, California, encourages State commissions and other policy makers to review the rate designs they have previously approved to determine whether they should be reconsidered in order to implement innovative rate designs that will encourage energy conservation and energy efficiency that will assist in moderating natural gas demand and reducing upward pressure on natural gas prices; *and be it further*

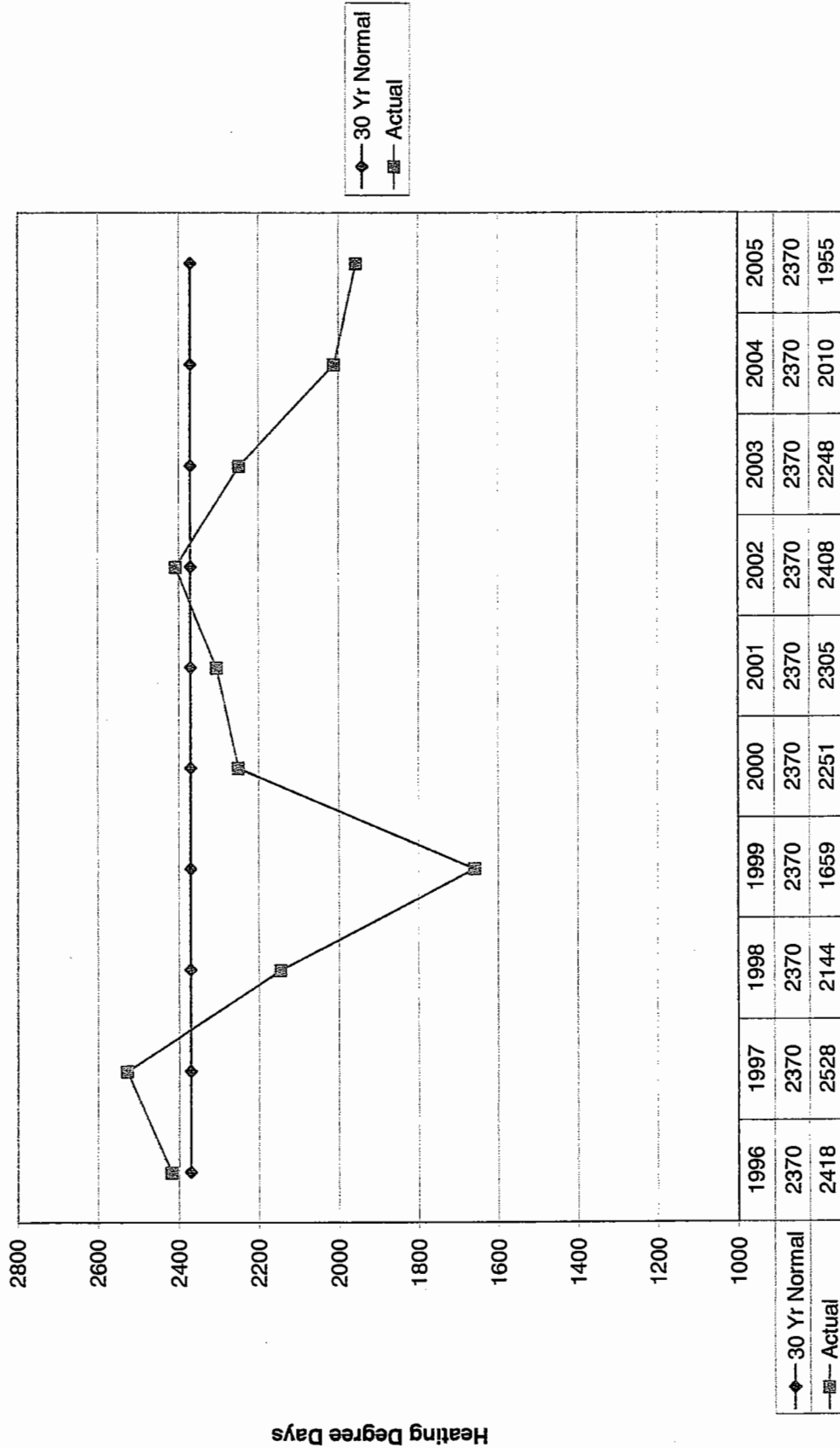
RESOLVED, That the Board of Directors of NARUC encourages state commissions and other policy makers to consider in their review innovative rate designs including "energy efficient tariffs" and "decoupling tariffs" (such as those employed by Northwest Natural Gas in Oregon, Baltimore Gas & Electric in Maryland, Washington Gas in Maryland, Southwest Gas in California, and Piedmont Natural Gas in North Carolina), "fixed-variable" rates (such as that employed by Northern States Power in North Dakota, and Atlanta Gas Light in Georgia), "customer choice options" (such as that approved in Oklahoma for Oklahoma Natural Gas), and other innovative proposals and programs that may assist, especially in the short term, in promoting energy efficiency and energy conservation and slowing the rate of growth of natural gas; *and be it further resolved*

RESOLVED, That the Board of Directors of NARUC recognizes that the best approach toward promoting energy efficiency programs for any utility, state, or region may likely depend on local issues, preferences, and conditions.

Sponsored by the NARUC Committee on Gas

Adopted by the NARUC Board of Directors November __2005

DFW Weather Station Actual HDD's



Heating Degree Days

Calendar Year

RATE SCHEDULE:	Rate R - Residential Sales	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE: 1 OF 1

RATE R - RESIDENTIAL SALES

Application

Applicable to Residential Customers for all natural gas provided at one Point of Delivery and measured through one meter.

Type of Service

Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate

Customer's monthly bill will be calculated by adding the following Customer and Mcf charges to the amounts due under the riders listed below:

Charge	Amount
Customer	\$ 13.50 per month
First 0 Mcf to 1.5 Mcf	\$ 3.5460 per Mcf
All Additional Mcf	\$.3460 per Mcf

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Weather Normalization Adjustment: Plus an amount for weather normalization calculated in accordance with Rider WNA.

Revenue Stabilization Adjustment: Plus an amount for revenue stabilization calculated in accordance with Rider RSA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Agreement

An Agreement for Gas Service may be required.

Notice

Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

RATE SCHEDULE:	Rate C - Commercial Sales	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE: 1 OF 1

RATE C - COMMERCIAL SALES

Application

Applicable to Commercial Customers for all natural gas provided at one Point of Delivery and measured through one meter and to Industrial Customers with an average annual usage of less than 3,000 Mcf.

Type of Service

Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate

Customer's monthly bill will be calculated by adding the following Customer and Mcf charges to the amounts due under the riders listed below:

Charge	Amount
Customer	\$ 30.00 per month
First 0 Mcf to 20 Mcf	\$ 1.2860 per Mcf
All Additional Mcf	\$ 0.1000 per Mcf

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR

Weather Normalization Adjustment: Plus an amount for weather normalization calculated in accordance with Rider WNA.

Revenue Stabilization Adjustment: Plus an amount for revenue stabilization calculated in accordance with Rider RSA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Agreement

An Agreement for Gas Service may be required.

Notice

Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

RATE SCHEDULE:	Rate T - Transportation	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE: 1 OF 2

RATE T - TRANSPORTATION

Application

Applicable, in the event that Company has entered into a Transportation Agreement, to a customer directly connected to the Atmos Energy Corp., Mid-Tex Division Distribution System (Customer) for the transportation of all natural gas supplied by Customer or Customer's agent at one Point of Delivery for use in Customer's facility.

Type of Service

Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate

Customer's bill will be calculated by adding the following Customer and MMBtu charges to the amounts and quantities due under the riders listed below:

Charge	Amount
Customer	\$ 430.00 per month
First 0 MMBtu to 1,500 MMBtu	\$ 0.1400 per MMBtu
Next 3,500 MMBtu	\$ 0.0350 per MMBtu
All Additional MMBtu	\$ 0.0100 per MMBtu

Upstream Transportation Cost Recovery: Plus an amount for upstream transportation costs in accordance with Part (b) of Rider GCR.

Rider RSA: Plus an amount for Revenue Stabilization calculated in accordance with Rider RSA.

Retention Adjustment: Plus a quantity of gas as calculated in accordance with Rider RA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Imbalance Fees

All fees charged to Customer under this Rate Schedule will be charged based on the quantities determined under the applicable Transportation Agreement and quantities will not be aggregated for any Customer with multiple Transportation Agreements for the purposes of such fees.

Monthly Imbalance Fees

Customer shall pay Company the greater of (i) \$0.10 per MMBtu, or (ii) 150% of the difference per MMBtu between the highest and lowest "midpoint" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" during such month, for the MMBtu of Customer's monthly Cumulative Imbalance, as defined in the applicable Transportation Agreement, at the end of each month that exceeds 10% of Customer's receipt quantities for the month.

RATE SCHEDULE:	Rate T - Transportation	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE: 2 OF 2

Curtailment Overpull Fee

Upon notification by Company of an event of curtailment or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailment or interruption, pay Company 200% of the midpoint price for the Katy point listed in *Platts Gas Daily* published for the applicable Gas Day in the table entitled "Daily Price Survey."

Replacement Index

In the event the "midpoint" or "common" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

Agreement

A transportation agreement is required.

Notice

Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions

In order to receive service under Rate T, customer must have the type of meter required by Company. Customer must pay Company all costs associated with the acquisition and installation of the meter.

RATE SCHEDULE:	Rate I - Industrial Sales	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE: 1 OF 2

RATE I - INDUSTRIAL SALES

Application

Applicable to Industrial Customers with a maximum daily usage (MDU) of less than 3,500 MMBtu per day for all natural gas provided at one Point of Delivery and measured through one meter. Service for Industrial Customers with an MDU equal to or greater than 3,500 MMBtu per day will be provided at Company's sole option and will require special contract arrangements between Company and Customer.

Type of Service

Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate

Customer's monthly bill will be calculated by adding the following Customer and MMBtu charges to the amounts due under the riders listed below:

Charge	Amount
Customer	\$ 430.00 per month
First 0 MMBtu to 1,500 MMBtu	\$ 0.1400 per MMBtu
Next 3,500 MMBtu	\$ 0.0350 per MMBtu
All Additional MMBtu	\$ 0.0100 per MMBtu

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b) respectively, of Rider GCR.

Revenue Stabilization Adjustment: Plus an amount for revenue stabilization calculated in accordance with Rider RSA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Curtailment Overpull Fee

Upon notification by Company of an event of curtailment or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailment or interruption, pay Company 200% of the midpoint price for the Katy point listed in *Platts Gas Daily* published for the applicable Gas Day in the table entitled "Daily Price Survey."

RATE SCHEDULE:	Rate I - Industrial Sales	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE: 2 OF 2

Replacement Index

In the event the "midpoint" or "common" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

Agreement

An Agreement for Gas Service may be required.

Notice

Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions

In order to receive service under Rate I, Customer must have the type of meter required by Company. Customer must pay Company all costs associated with the acquisition and installation of the meter.

RIDER:	Rider WNA – Weather Normalization Adjustment	
APPLICABLE TO:	Entire System	REVISION: 0 DATE:
EFFECTIVE DATE:		PAGE: 1 OF 2

RIDER WNA – Weather Normalization Adjustment

Provisions for Adjustment

The base rate per Mcf for gas service billed under the second block of Schedules R and C shall be adjusted during the revenue months of October through May in the manner hereinafter described, which adjustment is referred to as the "Weather Normalization Adjustment."

Computation of WNA

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per Mcf by the following formula:

$$WNA_i = R_i \frac{(HSF_i (NDD - ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where

i = any particular Rate schedule or billing classification within any such particular Rate schedule that contains more than one billing classification

WNA_i = Weather Normalization Adjustment for the i^{th} rate schedule or classification expressed as a rate per Mcf

R_i = base rate of temperature sensitive sales for the i^{th} schedule or Classification

$(HSF_i$ = heat sensitive factor for the i^{th} schedule or classification divided the average bill count in that class

NDD = billing cycle normal heating degree days

ADD = billing cycle actual heating degree days.

BL_i = the non-weather sensitive load; which, for purposes of this Adjustment, is deemed equal to zero (0).

The Weather Normalization Adjustment for j^{th} customer in i^{th} rate schedule is computed as:

$$WNA_i = WNAF_i \times q_{ji}, \text{ where } q_{ji} \text{ is the relevant sales quantity for the } j^{th} \text{ customer in } i^{th} \text{ rate schedule.}$$

RIDER:	Rider GCR – Gas Cost Recovery	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE: 1 of 3

Application

Applicable to Rate R, Rate C, and Rate I for all gas sales made by Company, and applicable to Rate R, Rate C, Rate I, and Rate T for recovery of upstream transportation costs. The total Rider GCR recovery amount due is determined by adding the gas cost calculated in Section (a) as applicable and the transportation cost calculated in Section (b) below, as applicable.

For Customers receiving service under Rate R and Rate C, the Gas Cost Recovery Factor and the Transportation Cost Factor will be calculated on a Mcf basis. For Customers receiving service under Rate I, the Gas Cost Recovery Factor will be calculated on a MMBtu basis. For Customers receiving service under Rate T and Rate I, the Transportation Cost Factor will be calculated on an MMBtu basis.

The amount due for gas cost (Part (a)) or transportation cost (Part (b)) is determined by multiplying the Gas Cost Recovery Factor (GCRF) or Transportation Cost Factor (TCF) by the Customer's monthly volume or quantity, as applicable.

Part (a) Gas Cost

Method of Calculation

The monthly gas cost adjustment is calculated by the application of a Gas Cost Recovery Factor (GCRF), as determined with the following formula:

$$\text{GCRF} = \text{Estimated Gas Cost Factor (EGCF)} + \text{Reconciliation Factor (RF)} + \text{Taxes (TXS)} + \text{Adjustments (ADJ)}$$

EGCF = Estimated cost of gas, including lost and unaccounted for gas attributed to residential, commercial, and industrial sales, divided by the estimated total residential, commercial, and industrial sales.

RF = Calculated by dividing the difference between the Actual Gas Cost Incurred over the preceding twelve-month period ended June 30 and the Actual Gas Cost Collected over that same twelve-month period, inclusive of interest, by the estimated total residential, commercial, and industrial sales for the succeeding October through June billing months.

Actual Gas Cost Incurred = The sum of the costs booked in Atmos Energy Corp., Mid-Tex Division account numbers 800 through 813 and 858 of the NARUC Uniform System of Accounts, including the net impact of injecting and withdrawing gas from storage. Also includes a credit or debit for any out-of-period adjustments or unusual or nonrecurring costs typically considered gas costs and a credit for amounts received as Imbalance Fees or Curtailment Overpull Fees.

Actual Gas Cost Collected = EGCF multiplied by the monthly volumes billed to Residential, Commercial and Industrial Sales customers, less the total amount of

TARIFF FOR GAS SERVICE

RIDER:	Rider GCR - Gas Cost Recovery	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE: 2 of 3

gas cost determined to have been charged to uncollectible expense (Account 904) for each month of the reconciliation period.

Any amount remaining in the reconciliation balance after the conclusion of the period of amortization will be maintained in the reconciliation balance and included in the derivation of the next RF.

TXS = Any statutorily imposed assessments or taxes applicable to the purchase of gas divided by the estimated total residential, commercial, and industrial sales.

ADJ = Any surcharge or refund ordered by a regulatory authority, inclusive of interest, divided by the estimated total residential, commercial, and industrial sales.

**Part (b) Transportation Cost
Method of Calculation**

Each month, a Transportation Cost Factor (TCF) is calculated separately for the fixed charges and usage charges, and determined separately for each Upstream Transportation Cost Rate Class listed below. The formula for the Total TCF for each rate class is:

$$\text{Total TCF} = \frac{((P1 - A1) \times D) + ((P2 - A2) \times V)}{S}$$

In the case of fixed charges, the fixed TCF component shall equal:

P1 = Estimated monthly cost of fixed charges for transportation service calculated pursuant to Rate CGS

D = Upstream Transportation Cost service allocation factor for the rate class as approved in the Company's most recent rate case, as follows:

Upstream Transportation Cost Rate Class	Allocation Factor (D)
Rate R - Residential Service	.629721
Rate C - Commercial Service	.298512
Rate I - Industrial Service and Rate T - Transportation Service	.071767

RIDER:	Rider GCR – Gas Cost Recovery	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE: 3 of 3

A1 = Adjustment applied in the current month to correct for the difference between the actual transportation cost for fixed charges of the second preceding month and the actual revenue collected for the transportation cost for fixed charges for such month, calculated by the formula:

$$A (1) = (C - R), \text{ where:}$$

C = Actual transportation cost for fixed charges for the second preceding month.

R = Actual revenue collected from the application of the fixed TCF component in the second preceding month.

S = Estimated Mcf or MMBtu as appropriate for the rate class for the current billing month(s).

In the case of usage charges, the usage TCF component shall equal:

P2 = Estimated monthly cost of usage charges for transportation service calculated pursuant to Rate CGS

V = Upstream Transportation Cost service allocation factor for the rate class determined on the basis of the ratio of each class' projected throughput to the total projected throughput to be delivered on Distribution for the current billing month(s).

A2 = Adjustment applied in the current month to correct for the difference between the actual transportation cost for usage charges of the second preceding month and the actual revenue collected for the transportation cost for usage charges of such month, calculated by the formula:

$$A (2) = (C - R), \text{ where:}$$

C = Actual transportation costs for the second preceding month.

R = Actual revenue collected from the application of the usage TCF component in the second preceding month.

The TCF is calculated to the nearest 0.0001 cent.

RIDER:	Rider RSA-- Revenue Stabilization Adjustment	
APPLICABLE TO:	Entire System	REVISION: 0 DATE:
EFFECTIVE DATE:		PAGE:

RIDER RSA-- Revenue Stabilization Adjustment

Provision for Adjustment

A rate adjustment shall be calculated twice each year, on a class-by-class basis, based on the difference between the actual base revenues collected during the specified period, and the test year base revenues for such period as established during the latest base rate proceeding adjusted for customer growth and adjusted pursuant to Texas Utilities Code § 104.301. A positive rate adjustment shall be recovered from customers within the applicable class, subject to true-up. A negative rate adjustment shall be credited to customers within the applicable class, subject to true-up.

Adjustment Periods

The Summer Adjustment Period shall be the revenue months of April through October, inclusive. The Winter Adjustment Period shall be the revenue months of November through March, inclusive.

Recovery Periods

The Summer Recovery Period for the Summer Adjustment Period shall be the revenue months of December through April, inclusive. The Winter Recovery Period for the Winter Adjustment Period shall be the revenue months of May through November, inclusive.

Rate Adjustment

At the conclusion of each adjustment period, the company shall calculate the actual base rate revenue, by class, received for that period and compare the total to the test year base rate revenue, by class, established in the latest rate proceeding for the same period, adjusted for customer growth and adjusted pursuant to Texas Utilities Code § 104.301. Customer growth shall be accounted for based on total bills rendered for each class during the adjustment period as compared to the same period in the test year. The test year base rate revenues shall then be adjusted based on test year average use per customer.

The actual base revenues for each adjustment period are subtracted from adjusted test year revenues for such period, and the difference shall be recovered or credited during the appropriate recovery period. The surcharge or credit shall be calculated by dividing the difference for the adjustment period by the projected sales for the respective recovery period.

Actual base revenue is equal to all revenue under Rates R, C, I and T, plus miscellaneous service charge revenue plus revenue from adjustments pursuant to Texas Utilities Code § 104.301.

True-up

At the conclusion of each recovery period, the company shall true-up the amount that was credited or surcharged. Any difference shall be rolled into the next calculation.

Report

The Company shall file an annual report (within 60 days of the end of the Winter Recovery Period) providing details of its application of this Rate Stabilization Adjustment over the prior two adjustment periods.

RATE SCHEDULE:	Cities	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE:

CITIES SERVED BY ATMOS ENERGY CORP., MID-TEX DIVISION:

Abbott	Bogata	Colorado City
Abilene	Bonham	Comanche
Addison	Bowie	Commerce
Alba	Boyd	Como
Albany	Brazos Bend	Coolidge
Allen	Bremond	Cooper
Alma	Bridgeport	Coppell
Alvarado	Bronte	Copper Canyon
Alvord	Brownsboro	Copperas Cove
Angus	Brownwood	Corinth
Anna	Bruceville-Eddy	Corral City
Annona	Bryan	Corsicana
Anson	Buckholts	Covington
Archer City	Buffalo	Crandall
Argyle	Buffalo Gap	Crawford
Arlington	Burkburnett	Cross Roads
Athens	Burleson	Crowley
Aubrey	Burnet	Cumby
Aurora	Byers	Dallas
Austin	Caddo Mills	Dalworthington Gardens
Avery	Caldwell	Dawson
Azle	Calvert	Decatur
Baird	Cameron	DeLeon
Balch Springs	Campbell	Denison
Ballinger	Canton	Denton
Bandera	Carbon	Deport
Bangs	Carrollton	DeSoto
Bardwell	Cashion Community	Detroit
Barry	Cedar Hill	Dodd City
Bartlett	Cedar Park	Double Oak
Bartonville	Celeste	Dublin
Bedford	Celina	Duncanville
Bellevue	Centerville	Early
Bellmead	Chandler	Eastland
Bells	Chico	Ector
Belton	Childress	Edgecliff Village
Benbrook	Chillicothe	Edom
Benjamin	Cisco	Electra
Bertram	Clarksville	Emhouse
Beverly Hills	Cleburne	Emory
Blackwell	Clifton	Ennis
Blanket	Clyde	Eules
Blooming Grove	Cockrell Hill	Eustace
Blossom	Coleman	Evant
Blue Mound	College Station	Everman
Blue Ridge	Colleyville	Fairfield
Blum	Collinsville	Fairview

RATE SCHEDULE:	Cities Served	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE:

Farmers Branch	Highland Village	Lindsay
Farmersville	Hillsboro	Lipan
Fate	Holland	Little Elm
Ferris	Holliday	Little River Academy
Flower Mound	Honey Grove	Llano
Forest Hill	Howe	Lometa
Forney	Hubbard	Lone Oak
Fort Worth	Hurst	Longview
Franklin	Hutchins	Lorraine
Frankston	Hutto	Lorena
Fredericksburg	Impact	Lott
Frisco	Iowa Park	Lueders
Frost	Iredell	Mabank
Gainesville	Irving	Madisonville
Garland	Italy	Malakoff
Garrett	Itasca	Malone
Gatesville	Jewett	Manor
Georgetown	Josephine	Mansfield
Glen Rose	Joshua	Marble Falls
Glenn Heights	Justin	Marlin
Godley	Kaufman	Marshall Creek
Goldthwaite	Keene	Mart
Goodlow	Keller	Maypearl
Gordon	Kemp	McGregor
Goree	Kennedale	McKinney
Gorman	Kerens	Megargel
Granbury	Kerrville	Melissa
Grand Prairie	Killeen	Meridian
Grandview	Knollwood	Merkel
Granger	Knox City	Mesquite
Grapevine	Kosse	Mexia
Greenville	Krum	Midlothian
Groesbeck	Kurten	Midway
Gunter	Lacy-Lakeview	Miles
Gustine	Ladonia	Milford
Haltom City	Lake Dallas	Mobile City
Hamilton	Lake Worth	Moody
Hamlin	Lakeport	Moran
Harker Heights	Lakeside	Morgan
Haskell	Lampasas	Muenster
Haslet	Lancaster	Munday
Hawley	Lavon	Murchison
Hearne	Lawn	Murphy
Heath	Leander	Nevada
Henrietta	Leona	New Chapel Hill
Hewitt	Leonard	Newark
Hickory Creek	Lewisville	Newcastle
Hico	Lexington	Nocona
Highland Park	Lincoln Park	Nolanville

RATE SCHEDULE:	Cities Served	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE:

Normangee	River Oaks	Sunset
North Richland Hills	Roanoke	Sweetwater
Northlake	Robert Lee	Talty
Novice	Robinson	Taylor
O'Brien	Roby	Teague
Oak Leaf	Rochester	Tehuacana
Oakwood	Rockdale	Temple
Oglesby	Rockwall	Terrell
Olney	Rogers	The Colony
Ovilla	Roscoe	Thorndale
Palestine	Rosebud	Thornton
Palmer	Ross	Thrall
Pantego	Rotan	Throckmorton
Paradise	Round Rock	Tioga
Paris	Rowlett	Toco
Parker	Roxton	Tom Bean
Pecan Gap	Royse City	Trent
Pecan Hill	Rule	Trenton
Penelope	Runaway Bay	Trinidad
Petrolia	Sachse	Trophy Club
Pflugerville	Sadler	Troy
Pilot Point	Saginaw	Tuscola
Plano	Saint Jo	Tye
Pleasant Valley	San Angelo	Tyler
Point	San Saba	University Park
Ponder	Sanctuary	Valley Mills
Post Oak Bend	Sanger	Valley View
Pottsboro	Sansom Park	Van Alstyne
Powell	Santa Anna	Venus
Poynor	Savoy	Vernon
Princeton	Scurry	Waco
Prosper	Seagoville	Walnut Springs
Putnam	Seymour	Watauga
Quanah	Shady Shores	Waxahachie
Quinlan	Sherman	Weinert
Quitman	Snyder	West
Ranger	Somerville	Westlake
Ravenna	South Mountain	Westover Hills
Red Oak	Southlake	Westworth Village
Reno (Lamar County)	Southmayd	White Settlement
Reno (Parker County)	Springtown	Whitehouse
Retreat	Stamford	Whitesboro
Rhome	Star Harbor	Whitewright
Rice	Stephenville	Whitney
Richardson	Strawn	Wichita Falls
Richland	Streetman	Wilmer
Richland Hills	Sulphur Springs	Windom
Riesel	Sun Valley	Winters
Rio Vista	Sunnyvale	Wixon Valley

RATE SCHEDULE:	Cities Served	
APPLICABLE TO:	Entire System	REVISION: DATE:
EFFECTIVE DATE:		PAGE:

Wolfe City
Woodway
Wortham
Wylie
Yantis

OUTLINE OF PROPOSED GAS CONTRACT REVIEW PROCESS

- Utility should prepare and file for approval an Annual Gas Supply Plan (the "Plan") by May1 of each year.
- Annual Gas Supply Plan should include the following elements.
 - A specific volume and pricing standard for base load gas.
 - A specific volume and pricing standard for peaking gas.
 - A pricing standard for spot gas with no specific volume.
 - A hedging plan for the systematic placement of a specified percentage of the base load volumes with specific timing for the placement and liquidation of the hedges. All costs related to placing the hedges, including gains and losses, will be recovered through the Rider GCR as recoverable gas cost.
 - Storage will be priced using the current weighted average cost of gas withdrawn from storage with the amount determined based on operational needs as nominated by Mid-Tex.
 - The Plan may contain alternative scenarios to account for a range of weather conditions.
 - The utility may request adjustments to the Plan during the year in response to significant market changes.
- The Commission will approve the plan as filed or with modifications by June 1 of each year. If the Commission does not issue an approval of the plan by June1, the utility may begin implementing the plan subject to prospective modification by the Commission to be effective after the issuance of the Commission's modification.
- The plan will be used to determine a weighted average cost of gas for the Gas Year, which will run from July 1 to June 30 of each year.
- During the annual gas cost reconciliation, the utility's actual weighted average cost of gas for the Gas Year will be compared to the weighted average cost of gas calculated under the Plan. Based on a pre-determined performance range, the utility and its customers will share in the savings or losses on either side of reasonableness band.
- There will be no other prudency review conducted related to gas cost.
- Cities or their representatives will be allowed to participate through comment on the Plan and on the utility's performance under the Plan at Cities cost.
- The process will provide for review of the process at least once each three Gas Years with the Commission ordering any necessary adjustments following comment from all interested parties.