

AGENDA INFORMATION SHEET

Item No ____

SETTLEMENT BETWEEN ATM CITIES AND ATMOS ENERGY:

- NO BASE RATE INCREASE
- SLIGHT CUSTOMER CHARGE
ADJUSTMENT FOR STEEL PIPE
REPLACEMENT PROGRAM
- WORKING ON LONG TERM RATE ISSUES

BACKGROUND

For the last four years ATM Cities have worked to resolve rate cases brought by Atmos Energy Corp. (“Atmos”) under a regime known as the Rate Review Mechanism (“RRM”). This mechanism has operated since a February 2008 settlement agreement where a number of items that can be very contentious under traditional rate making, like the rate of return on equity and the capital structure of the utility, were stipulated.

During last year’s RRM negotiations the retroactive true-up provision of RRM was eliminated. This led to a much smaller base rate increase request by Atmos. Last year Atmos requested an increase of \$70 million in base rates and this year the requested increase in base rates, excluding the steel pipe replacement program, was approximately \$9 million.

NO BASE RATE INCREASE

ATM engaged Utilitech, a rate consulting firm located in Lee’s Summit, Missouri. The firm spent several months investigating the merits of Atmos’ \$9 million increase in base rates. It issued a report which ATM’s negotiating team relied upon in trying to resolve contested issues with Atmos. After lengthy negotiations, Atmos agreed to withdraw its request for a base rate increase as part of the overall settlement.

STEEL PIPE REPLACEMENT

Over the past few years there have been a number of explosions involving steel service lines. The worst of these lines need to be replaced rapidly. Some of the lines have been in the ground since the '50s. Atmos did a risk assessment which attempted to target the lines most likely to have problems. This is the second year of the steel pipe replacement program. As part of the settlement last year it was expected that the residential customer charge would increase this year by 40 cents as a result of steel pipe replacements. In fact, the increase in the residential customer charge turned out to be lower than expected. The increase for the residential customer charge turned out to be 35 cents, of which 29 cents of that sum is for the steel pipe replacement program. The additional 6 cents is offset by a reduction in consumption or volumetric charges. The commercial customer charge will increased by \$1.22. Even with these increases, the customer charge for Atmos customers in the Mid-Tex region is among the lowest in Texas.

WORKING GROUPS

As part of the settlement, working groups for Atmos and ATM will begin to meet to work on issues that are difficult to resolve. In particular, under the RRM process there is not enough time to review many of the capital projects for reasonableness and prudence. The working groups should start meeting during the next 30 days. The working groups will also decide if the RRM process should be extended. If by December 15, 2011 no agreement is reached on the appropriate treatment of rate issues identified by the working groups or no agreement has been reached to extend RRM , then, Atmos will file a general rate case with all cities, other than the City of Dallas, no later than January 15, 2012. If an extension in the RRM is agreed to before December 15, 2011, then Atmos will file an RRM no sooner than April 1, 2012.

EFFECTIVE DATE OF SETTLEMENT

Counsel for ATM recommends that the settlement be adopted. It is the belief of Counsel that a litigated outcome is unlikely to result in a better outcome for ratepayers. The settlement is effective on September 1, 2011. It is important for ATM cities use their best efforts to adopt the resolution implementing the new tariffs by September 1, 2011.

FAILURE TO APPROVE SETTLEMENT

If a city should choose not to approve the settlement it is likely that the decision will be appealed to the Railroad Commission by Atmos. A litigated appeal of this sort could cost well over \$1 million, including the rate case expenses of Atmos and the city. An appeal of this sort will be extremely difficult to pursue if most of the cities located in the Mid-Tex Division have adopted the settlement.

SUMMARY OF SETTLEMENT TERMS

- RRM 4
 - \$6.6 million increase for steel service line program (undisputed).
 - There shall be no increase in base rates.
 - Rate design changes (R, C, I and T Tariffs attached)
 - \$7.50 residential customer charge (inclusive of \$0.44 for the steel service line program)
 - \$16.75 commercial customer charge (inclusive of \$1.22 for the steel service line program)
 - Consumption charge based on residential volumes of 80,048,320 Mcf and commercial volumes of 51,011,265 Mcf.
 - Report quarterly on the progress of the SSL program, indicating the cumulative services replaced by location and costs incurred, along with a narrative discussion of any problems encountered or departures from budgeted activity levels.
 - Put new tariff into effect on September 1, 2011.
- Process for Extension of RRM Process
 - August 15, 2011
 - Company and Cities agree on list of issues to review
 - Company and Cities establish working groups for issues that include company representatives, city settlement committee representatives and city consultants and attorneys as necessary
 - Company and Cities agree on meeting schedule for special review period
 - Special Review Period - September 1 – November 15, 2011
 - Working groups receive and review information related to identified issues and consider company and consultant recommendations
 - Negotiation Period - November 15, 2011 – December 15, 2011
 - Negotiate extension to RRM process with appropriate treatment of items from working groups
 - If no extension to the RRM is reached, the Company will file a Statement of Intent with the cities no sooner than January 15, 2012
 - If an extension to the RRM is reached, the Company will file RRM no sooner than April 1, 2012.