

AGENDA INFORMATION SHEET

DENIAL OF APPLICATION FOR AUTHORITY TO INCREASE RATES SUBMITTED BY ATMOS ENERGY CORPORATION

BACKGROUND

On or about January 31, 2012, Atmos Energy Corporation (“Atmos” or “Company”) filed a Statement of Intent to increase rates by approximately \$49.0 million, which equates to an increase of approximately 11.94% in base rates. The proposed changes would increase rates for residential and commercial customers and decrease rates for industrial and transportation customers within all incorporated areas served by Atmos’ Mid-Tex Division. Atmos also proposed implementing a Rate Review Mechanism (“RRM”) and, among other new tariffs, a new conservation and energy efficiency tariff (“Rider CEE”) in place of the current Rider CEE. Atmos further proposed to change its billing rate basis from Mcf to Ccf, and to revise its gas cost recovery tariff (“Rider GCR”). As part of its application, Atmos proposed an effective date of March 6, 2012, and later extended its proposed effective date to March 13, 2012. The City in earlier action suspended Atmos’ proposed effective date for 90 days. Based on Atmos’ amended proposed effective date the City must take action by June 11, 2012.

As proposed by Atmos, the fixed customer charges would increase for each customer class, while charges based on consumption would be reduced. Atmos estimates that the average monthly bill for each class of customer would be affected as follows: Residential customers would see a 13.6% increase; commercial customers would see a 6.69% increase; industrial customers would see a 14.22% decrease; and Rate T-Transportation customers would see a 14.22% decrease. Because of the proposed change in the fixed customer charge, residential customers that use less gas than the average customer would see a steeper percentage increase in their monthly bill.

The City must take action on Atmos’ Statement of Intent before June 11, 2012. Absent such action, Atmos’ rates are deemed approved by operation of law.

ATMOS TEXAS MUNICIPALITIES

The Atmos Texas Municipalities (“ATM”) group was organized by a number of municipalities, served by Atmos; the City is a member of the ATM coalition of cities. The law firm of Herrera & Boyle, PLLC (through Mr. Alfred R. Herrera and Mr. Jim Boyle) has previously represented the ATM in rate cases involving Atmos.

RECOMMENDATION: DENIAL OF ATMOS' PROPOSED RATE INCREASE

ATM's Special Counsel and the consultants engaged by ATM recommend that the City deny Atmos' proposed increase in rates. ATM's counsel and consulting experts have reviewed Atmos' application and conducted discovery and identified a number of reasons why Atmos' proposal is not appropriate:

- Atmos' proposed rates are based on operation and maintenance expenses that ATM's consulting experts have determined should be reduced by over \$5 million dollars;
- Atmos' proposed rates are based on taxes other than income taxes that ATM's consulting experts have concluded should be reduced by over \$200,000;
- Atmos' proposed rates assume depreciation and amortization expenses that ATM's consulting experts have determined should be reduced by over \$6 million dollars;
- Atmos' proposed rates are based on a rate base that ATM's consulting experts have determined should be reduced by over \$190 million dollars;
- Atmos' proposed rates assume a rate of return that ATM's consulting experts advise should be reduced by more than a full point;
- Atmos' proposed rates are based on income taxes that ATM's consulting experts advise should be reduced by more than \$13 million;
- While Atmos' proposed rates are based on an increase in Atmos' revenue requirements of more than \$50 million, the above adjustments recommended by ATM's consulting experts together result in a *decrease* in Atmos' revenue requirement of more than \$10 million dollars; and
- ATM has attempted to negotiate with Atmos, but Atmos has been unwilling to adjust its proposed rates sufficiently in light of the adjustments recommended by ATM's consulting experts.

ATM's Special Counsel and its consultants will continue settlement efforts to attempt to resolve Atmos' application to increase rates through negotiations. In the interim, once the City denies Atmos' request, Atmos will submit an appeal to the Railroad Commission of Texas and will do so within 30 days from the date of the City's action. ATM will continue its participation in the proceedings at the Railroad Commission of Texas.

The City must take action no later than June 11, 2012. If the City does not take action by June 11, 2012, Atmos' proposed rates will be deemed approved by operation of law, subject to the City's right to continue a hearing in progress to address Atmos' rate application.