



Randy Hartford
Manager, Public Affairs
Atmos Energy Corporation
Mid-Tex Division
3110 North I35
Round Rock, Texas 78681

December 9, 2010

To the Honorable Mayor and
Members of the City Council
City of Pflugerville, Texas
PO BOX 589
Pflugerville, TX 78691

RE: Interpretation of Franchise Agreement Terms – Fee on Fee

Dear City Officials:

Following an internal franchise review, Atmos determined that there was no clear legal support allowing the inclusion of the recovery of fees pursuant to a franchise fee agreement in the definition of Gross Revenues and discontinued including franchise fees recovered from customers, including street and alley fees, in the calculation of the franchise payment as of January 1, 2009. In short, the Company determined that the franchises did not require the Company to pay franchise fees on franchise fees.

Later Atmos was approached by several cities that interpreted the definition of Gross Revenues in their franchise agreement to include these franchise fees. Even though there is a difference in opinion, Atmos Energy is willing to include franchise fees in the definition of Gross Revenues with the understanding that it will be recovered from our customers within your city, as are franchise fees associated with the other components of Gross Revenues.

The attached election letter provides the opportunity to add franchise fees to the definition of Gross Revenues, conditioned upon the ability of the Company to recover in full all franchise fees paid. Additionally, the election letter provides the opportunity to make the election effective as of January 1, 2009, resulting in an additional payment that reflects the inclusion of franchise fees in Gross Revenues for prior periods beginning January 1, 2009.

It is important to note that the election to include fee on fee will impact customers within your city by effectively raising the amount billed above the percentage reflected in the agreement in order to recover the amount of fee paid on franchise fees. Due to the fee charged on the value of volumes of gas transported, transportation customers will see the most dramatic increase on their bill. Any additional makeup payment will also be recovered from customers. Atmos anticipates that this recovery will last approximately twelve months.



If a municipality has passed a new franchise with an effective date on or after January 1, 2009, it may be necessary for the Council to pass a franchise amendment in addition to signing the election letter. This is because Atmos Energy clarified franchise compensation language following its internal review.

In the interest of certainty with respect to contract administration, the Company will discontinue the opportunity to add franchise fees on franchise fees and request a makeup payment for the prior period as of March 31, 2011. Any election not postmarked by that date will not be accepted. Please contact me at (512) 310-3805 should you have any questions.

Sincerely,

A handwritten signature in black ink, consisting of a stylized 'R' followed by a series of loops and a long horizontal line extending to the right.

Randy Hartford

On or Before March 31, 2011

Mr. David Park
Vice President Rates and Regulatory Affairs
Atmos Energy Corporation, Mid-Tex Division
5420 LBJ Freeway, Ste. 1862
Dallas, TX 75240

RE: Franchise Fees on Franchise Fees

Dear Mr. Park:

To the extent that the following paragraphs are applicable, the selections below indicate the City's interpretation of the franchise agreement between the City and Atmos Energy Corporation ("Atmos") as well as the election of the City to receive an additional payment consistent with the City's historical interpretation of the franchise agreement. The City has selected 'Y' to indicate agreement or 'N' to indicate disagreement.

Franchise Fees other than on Value of Gas Transported

- Y or N The City intends that all amounts billed to and collected from customers for franchise fees (other than those assessed on the value of transported gas) be added to the revenue amount that Atmos uses to calculate the City's franchise fee payment.
- Y or N The City elects to receive an additional payment for the period of time beginning with January 1, 2009 that franchise fees (other than those assessed on the value of transported gas) were not included in the calculation of the City's franchise fee payment.

Franchise Fees on Value of Gas Transported

- Y or N The City intends that the amount billed to and collected from transportation customers for franchise fees assessed on the value of gas transported on behalf of the customer be added to the revenue amount that Atmos uses to calculate the City's franchise fee payment.
- Y or N The City elects to receive an additional payment for the period of time beginning with January 1, 2009 that franchise fees on the value of transported gas were not included in the calculation of the City's franchise fee payment.