

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION]
OF ATMOS ENERGY FOR ADJUSTMENT]
OF ITS NATURAL GAS RATES IN] KCC Docket No. 14-ATMG-320-RTS
THE STATE OF KANSAS]

DIRECT TESTIMONY OF

ANDREA C. CRANE

RE: REVENUE REQUIREMENTS

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

May 20, 2014

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1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Andrea C. Crane and my business address is PO Box 810, Georgetown,
4 Connecticut 06829. (Mailing address: 90 Grove Street, Suite 211, Ridgefield, CT 06877).

5

6 **Q. By whom are you employed and in what capacity?**

7 A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in
8 utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and
9 undertake various studies relating to utility rates and regulatory policy. I have held several
10 positions of increasing responsibility since I joined The Columbia Group, Inc. in January
11 1989. I became President of the firm in 2008.

12

13 **Q. Please summarize your professional experience in the utility industry.**

14 A. Prior to my association with The Columbia Group, Inc., I held the position of Economic
15 Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to
16 January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic
17 (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product
18 Management, Treasury, and Regulatory Departments.

19

20 **Q. Have you previously testified in regulatory proceedings?**

21 A. Yes, since joining The Columbia Group, Inc., I have testified in over 350 regulatory

1 proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas,
2 Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode
3 Island, South Carolina, Vermont, Washington, West Virginia and the District of Columbia.
4 These proceedings involved gas, electric, water, wastewater, telephone, solid waste, cable
5 television, and navigation utilities. A list of dockets in which I have filed testimony since
6 January 2008 is included in Appendix A.

7
8 **Q. What is your educational background?**

9 A. I received a Master of Business Administration degree, with a concentration in Finance, from
10 Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in
11 Chemistry from Temple University.

12
13 **II. PURPOSE OF TESTIMONY**

14 **Q. What is the purpose of your testimony?**

15 A. On January 9, 2014, Atmos Energy Corporation (“Atmos” or “Company”) filed an
16 Application with the Kansas Corporation Commission (“KCC” or “Commission”) seeking a
17 net rate increase of approximately \$7.005 million or 13.0% for its natural gas operations in
18 Kansas. The Company’s Application is based on a base rate increase of \$8.765 million,
19 offset by rebasing \$0.589 million that is currently being collected through the Gas Reliability
20 Surcharge (“GSR”) and \$1.171 million that is currently being collected through the Ad
21 Valorem Surcharge Rider. In addition to the proposed rate increase, Atmos is also seeking

1 authorization to implement a regulatory asset related to “system integrity investment”.

2 The requested increase would result in an average monthly increase for residential
3 customers of approximately \$5.81 or 22.0%. The Company’s last base rate case was filed in
4 January 2012, based upon a Test Year ending September 30, 2011.¹ Atmos provides service
5 to approximately 129,000 Kansas customers in 106 communities and in 33 surrounding
6 counties.

7 The Columbia Group, Inc. was engaged by the State of Kansas, Citizens’ Utility
8 Ratepayer Board (“CURB”) to review the Company’s Application and to provide
9 recommendations to the KCC regarding the Company’s revenue requirement claim. I am
10 also providing testimony on the Company’s proposed regulatory asset related to system
11 integrity investment. In addition to my testimony, CURB is sponsoring the testimony of two
12 other witnesses in this case. Dr. J. Randall Woolridge is submitting testimony on cost of
13 capital and capital structure issues and Brian Kalcic is submitting testimony with regard to
14 class cost of service and rate design issues.

15
16 **Q. What are the most significant issues in this rate proceeding?**

17 A. The most significant accounting issues driving Atmos’s rate increase request are 1) the
18 Company’s claim for a return on equity of 10.53%, 2) return requirements associated with
19 plant-in-service additions since the last base rate case, 3) the Company’s request to include
20 construction work-in-progress (“CWIP”) in rate base and recover associated property taxes,

1 KCC Docket No. 12-ATMG-564-RTS (“564 Docket”).

1 and 4) incremental salary and wage expenses and associated benefits.

2
3 **III. SUMMARY OF CONCLUSIONS**

4 **Q. What are your conclusions concerning the Company's revenue requirement and its**
5 **need for rate relief?**

6 A. Based on my analysis of the Company's filing and other documentation in this case, my
7 conclusions are as follows:

- 8 1. The twelve-month period ending September 30, 2013, as adjusted, is an acceptable
9 Test Year to use in this case to evaluate the reasonableness of the Company's claim.
- 10 2. Atmos has Test Year, pro forma rate base of \$173,495,171 as shown in Schedule
11 ACC-3.
- 12 3. The Company has pro forma operating income at present rates of \$13,132,722, as
13 shown in Schedule ACC-5.
- 14 4. Based on Dr. Woolridge's recommended capital structure and capital cost rates,
15 Atmos has an overall cost of capital of 7.39%, as shown in Schedule ACC-2.
- 16 5. Atmos has a Test Year, pro forma, revenue surplus \$507,853, as shown on Schedule
17 ACC-1. This is in contrast to the Company's claimed deficiency of \$7,005,215.
- 18 6. The KCC should reject the Company's request to implement a regulatory asset
19 associated with system integrity investment.

1 **IV. COST OF CAPITAL AND CAPITAL STRUCTURE**

2 **Q. What is the cost of capital and capital structure that the Company is requesting in**
 3 **this case?**

4 A. The Company's filing was based on an overall cost of capital of 8.44%, which includes
 5 the following capital structure and cost rates, as shown in Section 7 of its Application:

	Percentage	Cost	Weighted Cost
Common Equity	51.24%	10.53%	5.40%
Long-Term Debt	48.76%	6.23%	3.04%
Total	100.00%		8.44%

7
 8 **Q. Is CURB recommending any adjustments to this capital structure or cost of capital?**

9 A. As discussed in the testimony of Dr. Woolridge, CURB is not recommending any adjustment
 10 to the Company's proposed capital structure. However, CURB is recommending that the
 11 KCC authorize a return on equity of 8.50% for Atmos.

12
 13 **Q. What is the overall cost of capital that CURB is recommending for Atmos?**

14 A. As shown on Schedule ACC-2, CURB is recommending an overall cost of capital for Atmos
 15 of 7.39%, based on the following capital structure and cost rates:

	Percentage	Cost	Weighted Cost
Common Equity	51.24%	8.50%	4.36%
Long-Term Debt	48.76%	6.23%	3.04%
Total	100.00%		7.39% ²

16

 2 Does not add due to rounding.

1 Please see the testimony of Dr. Woolridge for a discussion of CURB's cost of equity
2 recommendation.

3

4 **V. RATE BASE ISSUES**

5 **Q. What Test Year did the Company utilize to develop its rate base claim in this**
6 **proceeding?**

7 A. The Company selected the Test Year ending September 30, 2013.

8

9 **Q. Are you recommending any adjustment to the Company's rate base claim?**

10 A. Yes, I am recommending one adjustment. Specifically, I am recommending an adjustment to
11 the Company's claim for CWIP.

12

13 **Q. What is CWIP?**

14 A. CWIP is plant that is under construction but which has not yet been completed and placed
15 into service. Once the plant is completed and serving customers, then the plant is booked to
16 utility plant-in-service and the utility begins to take depreciation expense on the plant.

17

18 **Q. What CWIP did the Company include in its rate base claim in this case?**

19 A. The Company's rate base claim includes CWIP of \$13,225,467, as shown in Section 14A of
20 the filing.

21

1 **Q. How did Atmos develop its claim for CWIP in this case?**

2 A. Atmos began with reviewing its actual CWIP of \$2,521,408 at the end of the Test Year to
3 determine which projects were expected to be in-service by March 31, 2014. The Company
4 then removed long-term projects that were not expected to be in-service as of that date.
5 Atmos then increased its CWIP balance to include additional projected spending for projects
6 that it anticipated to be in-service by March 31, 2014.

7

8 **Q. Do you believe that CWIP is an appropriate rate base element?**

9 A. No, I do not believe that CWIP is an appropriate rate base element. CWIP does not represent
10 facilities that are used or useful in the provision of utility service. In addition, including this
11 plant in rate base violates the regulatory principle of intergenerational equity by requiring
12 current ratepayers to pay a return on plant that is not providing them with utility service and
13 which may never provide current ratepayers with utility service. However, I understand that
14 the inclusion of CWIP in rate base is governed by statute.³

15 K.S.A. 66-128 provides for the KCC to determine the value of the property included
16 in rate base. The statute generally requires that “property of any public utility which has not
17 been completed and dedicated to commercial service shall not be deemed to be used and
18 required to be used in the public utility’s service to the public.”

19 However, the statute also provides that certain property “shall be deemed to be
20 completed and dedicated to commercial service” under certain circumstances. Specifically,

³ I am not an attorney and my discussion of the CWIP statute is not intended as a legal interpretation of that statute,

1 K.S.A. 66-128(b)(2) provides that,

2 Any public utility property described in subsection (b)(1) shall be deemed to
3 be completed and dedicated to commercial service if: (A) construction of the
4 property will be commenced and completed in one year or less; (B) the
5 property is an electric generation facility that converts wind, solar, biomass,
6 landfill gas or any other renewable source of energy; (C) the property is an
7 electric generation facility or addition to an electric generation facility, which
8 facility or addition to a facility is placed in service on or after January 1,
9 2001; or (D) the property is an electric transmission line, including all towers,
10 poles and other necessary appurtenances to such lines, which will be
11 connected to an electric generation facility.
12

13 **Q. Does the CWIP included by Atmos in its rate base claim meet the criteria outlined in**
14 **the statute?**

15 A. While I am not an attorney, I believe that much of the CWIP claimed by Atmos does not
16 meet the criteria outlined in the statute. The majority of the costs claimed by Atmos had not
17 been incurred by the end of the Test Year, and therefore these costs do not represent
18 “property” of the Company as of that date. Thus, the Company’s CWIP claim includes
19 significant costs that were not CWIP at the end of the Test Year. Its inclusion of these post-
20 test year costs, which had not been incurred by September 30, 2013, is an attempt to move
21 the Company’s Test Year out by an additional six months.
22

23 **Q. Does the Company’s claim include costs for new projects that were not even in CWIP**
24 **at the end of the Test Year?**

25 A. Yes, it does. In addition to including additional expenditures for projects that were in CWIP

but rather provides my understanding of the statute from a ratemaking perspective.

1 at the end of the Test Year, the Company also included \$10.67 million of expenditures for
2 new projects that were not in CWIP at September 30, 2013. These are costs that were not
3 incurred by the end of the Test Year and accordingly should not be considered “property”
4 used in the delivery of utility service as of that date. The statute referenced above applies the
5 one-year in-service limit to “property”. With regard to expenditures made after the end of
6 the Test Year, there was no associated “property” in CWIP by September 30, 2013.

7
8 **Q. What level of CWIP do you recommend that the KCC include in the Company’s rate
9 base?**

10 A. I am recommending that the KCC authorize the Company to include CWIP of \$2,521,408 in
11 rate base. This is the actual CWIP at September 30, 2013, the end of the Test Year. My
12 recommendation is shown in Schedule ACC-4.

13
14 **Q. If the Commission accepts the Company’s proposal to reflect post-test year CWIP in
15 rate base, should it then make an additional adjustment to reflect customer growth
16 after September 30, 2013?**

17 A. Yes, it should. Consistent with my recommendation to exclude post-test year CWIP from
18 rate base, I have annualized customers as of the end of the Test Year, as discussed in more
19 detail later in my testimony. However, if the KCC were to go beyond September 30, 2014
20 and include post-test year additions in rate base, then it would be appropriate to include an
21 additional adjustment to reflect revenues associated with post-year customer growth. In

1 addition, in that case it would also be appropriate to include other post-test year adjustments,
2 such as additions to the depreciation reserve and deferred income tax reserve, both of which
3 would probably result in reductions to rate base.

4
5 **Q. Based on your adjustment, what is the total rate base that you are proposing for**
6 **Atmos?**

7 A. As shown on Schedule ACC-3, I am proposing a rate base of \$173,495,171. This represents
8 an increase of approximately 16.9% over the pro forma rate base recommended by CURB in
9 the Company's last base rate case.

10
11 **VI. OPERATING INCOME ISSUES**

12 **A. Pro Forma Revenue**

13 **Q. How did the Company determine its pro forma revenue claim in this case?**

14 A. Atmos began with its actual Test Year revenues. The Company then made an adjustment to
15 normalize revenues for normal weather, based on a thirty-year period as determined by the
16 National Oceanic and Atmospheric Administration ("NOAA"). The Company also made
17 several adjustments to commercial and large volume sales and transportation customer
18 accounts. These adjustments annualized sales for customers lost or added during the Test
19 Year and normalized revenues for customers that switched from one class of service to
20 another. Finally, Atmos made an adjustment to reflect proration of facilities charges for
21 customers leaving or connecting to the system during the Test Year.

1 The Company's revenue claim also includes the Test Year amount for Other
2 Revenue, including forfeited discounts, miscellaneous service revenues, and Ad Valorem
3 Surcharge revenue.

4
5 **Q. Are you recommending any adjustment to the Company's pro forma revenue claim?**

6 A. Yes, I am recommending two adjustments to the Company's revenue claim. First, the
7 Company's pro forma revenue claim is based on actual average residential customer counts
8 during the Test Year. Atmos did not make any adjustment to annualize its pro forma revenue
9 to reflect residential customer growth that occurred during the Test Year. I recommend that
10 the KCC adopt a revenue annualization adjustment for residential customers.

11
12 **Q. Why do you believe that such an adjustment is necessary?**

13 A. Annualization adjustments are frequently made to reflect the fact that customers typically
14 increase from year to year. This is especially true of residential customers. In Section 8 of
15 its Application, the Company provided information regarding the number of customers, by
16 customer class, over the past few years. As shown in that exhibit, the average number of
17 residential customers increased from 117,477 for the twelve months ending September 30,
18 2012 to 118,879 in the Test Year, an increase of 1,402 customers or approximately 1.2%.
19 The full impact of this growth is not reflected in the Company's pro forma revenue claim,
20 due to the fact that Atmos based its claim on actual average customers during the Test Year.

1 Therefore, I have made an adjustment to annualize customer growth to reflect a full year of
2 revenues for customers added during the Test Year.

3

4 **Q How did you quantify your adjustment?**

5 A. As shown on Schedule ACC-6, I have increased the Company's pro forma residential
6 revenue, both facilities charges and commodity charges, by 0.6%. This reflects one-half of
7 the average growth of 1.2% from the year preceding the Test Year to the Test Year. Since,
8 on average, only one-half of the actual Test Year growth is reflected in the Company's pro
9 forma revenue claim, my adjustment annualizes revenues to reflect revenues based on
10 residential customers at the end of the Test Year. I limited my adjustment to the residential
11 class. Annualization adjustments are not commonly made for larger customer classes, given
12 the significant variation in usage among members of these classes. In addition, it appeared
13 that no adjustment was necessary to the commercial sales class, based on my review of the
14 Company's pro forma sales revenue for that class. To calculate the operating income impact
15 of my adjustment on Schedule ACC-6, I also took into account the uncollectible costs
16 associated with the incremental sales revenue.

17

18 **Q. What is your second revenue adjustment?**

19 A. I am recommending an adjustment to the actual Test Year claim for Forfeited Discounts.
20 Forfeited Discounts refer to revenue that the Company receives from customers that fail to
21 pay their bills in a timely manner. It is my understanding that Atmos imposes a 2% late

1 payment charge on delinquent bills. Revenues received from these late payment fees are
2 classified as Forfeited Discounts and included in the Company's Other Revenue claim.

3 As shown in the response to CURB-8, the actual amount of Forfeited Discounts in the
4 Test Year was \$229,641, which reflected a significant decrease from the fiscal year 2012
5 amount of \$264,248. While Forfeited Discount revenue generally declined over the past few
6 years, the declines from fiscal years 2009 through 2012 were largely the result of lower gas
7 prices. However, in the response to KCC -117, Atmos stated that the decline from fiscal year
8 2012 to fiscal year 2013 was the result of Atmos suspending late payment charges and
9 collection activities for a period of three months after it implemented a new customer service
10 system in May 2013. Therefore, the Test Year does not represent a period of normal
11 collection activities.

12
13 **Q. What do you recommend?**

14 A. If the actual Test Year level of Forfeited Discounts is annualized to account for the three
15 months during which late payment charges were not applied, the result would be normalized
16 Forfeited Discount revenue of \$306,188 ($\$229,641 / 9 \times 12$). In order to be conservative, I
17 have reflected the fiscal year 2012 Forfeited Discount revenue of \$264,248 as a proxy for a
18 normalized Test Year amount. My adjustment is shown in Schedule ACC-7.

19
20 **B. Incentive Compensation Expense**

21 **Q. Please describe the Company's incentive compensation programs.**

1 A. Atmos has four incentive compensation plans. The Variable Pay Plan (“VPP”) applies to
2 virtually all employees other than those included in the Company’s Management Incentive
3 Plan (“MIP”). There are approximately 4,550 participants in the VPP. The VPP guidelines
4 for performance measures included in the plan description are primarily associated with
5 financial performance. These guidelines include:

- 6 (a) Total shareholder return
- 7 (b) Return on assets, equity, capital, or investment
- 8 (c) Pre-tax or after-tax profit levels, including: earnings per share; earnings
9 before interest and taxes; earnings before interest, taxes, depreciation and
10 amortization; net operating profits after tax, and net income
- 11 (d) Cash flow and cash flow return on investment
- 12 (e) Economic value added and economic profit
- 13 (f) Growth in earnings per share
- 14 (g) Levels of operating expense or other expense items as reported on the income
15 statement, including operating and maintenance expense and capital expense
- 16 (h) Measures of customer satisfaction and customer service as surveyed from
17 time to time, including the relative improvement therein.

18
19 While technically the VPP can be awarded based on any of the above guidelines, the VPP
20 awards over the last few years have been tied directly to an earnings per share threshold. As
21 stated in the fiscal year 2013 Guidelines provided in response to KCC-65, “[p]erformance
22 targets for the plan are set by the Board of Directors and tied to annual profitability goals
23 expressed as Earnings Per Share (EPS).”

24 The MIP is a similar incentive program for executives and senior management that is
25 available to Atmos corporate officers, division presidents, directors, and manager level
26 employees in pay grades 7, 8, and 9. The guidelines for MIP awards are identical to those
27 listed above with regard to the VPP. Awards under the MIP can be paid in cash, a portion of
28 which can be converted into stock or restricted share units.

1 The third incentive compensation plan is the Long-Term Incentive Plan (“LTIP”).
2 This plan is available to selected key management and supervisory employees. Participants
3 receive long-term equity grants in two forms: (1) time-lapsed restricted stock units (“RSU”)
4 and (2) performance-based restricted stock units (“PBRSU”). The performance measurement
5 for the PBRSU is based on a three-year cumulative EPS goal.

6 Finally, Atmos has a Customer Contact Center (“CCC”) Incentive Program. This
7 plan is available for the Company’s Customer Service personnel that meet certain criteria as
8 specified in the plan. The awards are based on four key performance metrics.

9
10 **Q. Do the Company’s incentive plans focus on parameters that directly benefit**
11 **ratepayers?**

12 A. No, they do not. With the exception of the CCC, the Company’s incentive compensation
13 programs are based directly on earnings. While the awards may be allocated to individual
14 employees based on performance and other metrics, the level of awards is directly tied to
15 earnings thresholds. Thus, regardless of performance, no awards are made unless certain
16 financial parameters are met. This means, no matter how exceptional an individual
17 employee’s performance is, that employee will not receive an incentive compensation award
18 unless a threshold level of shareholder earnings is achieved.

19 The VPP and MIP descriptions clearly focus on benefits to shareholders. For
20 example, the description of the VPP, provided in response to CURB-35, states that:

21 The Plan is intended to provide the Company a means by which it can
22 engender and sustain a sense of personal commitment on the part of its

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Employees in the continued growth, development, and financial success of the Company. It is intended to encourage them to remain with and devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its shareholders. (Emphasis added)

Similar language is used in the description of the MIP.

Q. How much did the Company include in its filing relating to incentive compensation programs?

A. As shown in the response to KCC-129, the total VPP and MIP awards during the Test Year subject to allocation were \$13,364,949, approximately 90% of which were incurred by Division 2 (Shared Services). A portion of these costs was capitalized. The expense portion allocated or directly-charged to Kansas was \$639,036.

Similar information was provided in KCC-131 with regard to the LTIP. Total LTIP payments were \$10,793,625. Again, approximately 90% of these costs were incurred by Division 2. After capitalization of a portion of these costs, the amount of LTIP costs allocated or directly-charged to Kansas operations was \$337,716.

Q. How much of the Company’s incentive compensation awards were paid to officers?

A. As shown in the Summary Compensation Table provided in the Company’s 2013 Proxy Statement, in fiscal year 2013 non-equity incentive compensation awards totaled \$2,872,699 for the five Named Executive Officers (“NEOs”). In addition, the NEOs received \$2,346,241 in stock awards. Mr. Cocklin, who is President and Chief Executive Officer,

1 received \$1,171,862 in non-equity incentive compensation and \$2,521,185 in stock awards.
2 Mr. Cocklin's total compensation in fiscal year 2013 was \$6,902,578, including a base salary
3 of \$868,046. Base salaries in the Test Year for other NEOs ranged from \$326,132 to
4 \$374,769, with total compensation ranging from \$1,232,194 up to the \$6,902,578 for Mr.
5 Cocklin.

6
7 **Q. Do you believe that the incentive compensation program costs claimed by Atmos**
8 **should be passed through to ratepayers?**

9 A. No, I do not. With the exception of the CCC, the Company's incentive plans are heavily
10 dependent upon financial parameters. Moreover, a large portion of these costs are
11 attributable to officers and other highly compensated employees. While I am not making any
12 adjustments to the underlying base salaries for any employees, including officers and other
13 executives, ratepayers should not be required to pay for large incentive compensation
14 payments in addition to these generous base salaries.

15
16 **Q. Doesn't the Company use a compensation consulting firm to benchmark its**
17 **compensation?**

18 A. Yes, it does. In the past, Atmos had engaged Towers Watson to review its compensation
19 practices and provide information on compensation at other companies to use as a
20 benchmark. It is my understanding that Pay Governance has now been engaged to provide
21 these services. But regardless of which compensation advisory firm is employed, the result is

1 the same – spiraling compensation costs, especially at the executive level. For example, Mr.
2 Cocklin’s non-equity incentive compensation increased from \$337,000 in fiscal year 2009 to
3 \$1,171,862 in fiscal year 2013. I recognize that his responsibilities expanded somewhat in
4 the past year, but Mr. Cocklin’s fiscal year 2012 non-equity incentive compensation was still
5 a healthy \$967,154, well above the 2009 award. Mr. Haefner’s (Senior Vice President,
6 Human Resources) non-equity incentive compensation increased from \$160,875 in fiscal
7 year 2010 to \$269,059 in fiscal year 2013 while Mr. Gregory (Senior Vice President and
8 General Counsel) saw an increase from \$135,900 in fiscal year 2009 to \$289,998 in fiscal
9 year 2013.

10
11 **Q. Why do you believe that the use of benchmarking results in spiraling executive**
12 **compensation costs?**

13 A. Companies state that they must benchmark their compensation in order to be competitive.
14 However, such benchmarking actually results in ever-increasing executive compensation
15 levels. This is because companies generally target their compensation to the 50th percentile
16 of companies in the proxy group selected for benchmarking. Such practices tend to escalate
17 increases in compensation, especially for highly-paid officers. These studies compare the
18 subject company’s compensation to compensation in a broad range of other firms. Since
19 most companies do not want to find themselves in the lower half of the benchmark group,
20 companies that typically fall below the average raise their compensation – and hence the
21 average of the benchmark companies increases. This sets off a chain of events that results in

1 ever-increasing compensation levels as additional companies must increase their
2 compensation levels to avoid falling below the 50th percentile. The KCC should be
3 particularly wary of any compensation plans that utilities attempt to justify by means of
4 comparison to benchmark studies. It is not surprising that executive compensation levels
5 have risen dramatically over the past few years, along with the practice of benchmarking.
6

7 **Q. What do you recommend?**

8 A. I recommend that the KCC deny the Company's request for recovery of incentive
9 compensation costs, with the exception of CCC Incentive Program costs. Many of these
10 costs relate to incentive awards for a small number of officers, who are already well-
11 compensated. Moreover, all of these awards are tied to financial benchmarks that do not
12 necessarily result in ratepayer benefit. These awards were designed as incentives to enhance
13 shareholder value. If the Company wants to reward employees based, in whole or in part, on
14 financial results then shareholders should be willing to absorb these costs. This
15 recommendation will require the Board of Directors to establish incentive compensation
16 plans that shareholders are willing to finance. As long as ratepayers are required to pay the
17 costs of these incentive plans, then there is no incentive for management to control these
18 costs. This is especially true since the officers and executives of the Company are primary
19 beneficiaries of such plans. Therefore, I recommend that the Commission deny the
20 Company's claim for incentive compensation costs. My adjustment is shown in Schedule
21 ACC-8.

1 It should be noted that my adjustment only includes the expense portion of these
2 costs. Significant amounts of incentive compensation costs are routinely capitalized and
3 allocated to various plant accounts. As shown in the responses to KCC-129 and KCC-131,
4 approximately 37.5% of VPP/MIP costs are capitalized. The capitalization ratio is even
5 higher for LTIP costs, with approximately 46.5% being capitalized. It is difficult to quantify
6 the amounts allocated to each plant account and the ultimate impact of this allocation on the
7 Company's rate base, especially after these allocations have already been embedded in the
8 utility's various plant accounts. However, even if the KCC accepts my adjustment to
9 incentive compensation, there will still be significant incentive compensation costs
10 embedded in the Company's rate base. Therefore, my recommended incentive compensation
11 adjustment is conservative in that it only includes the expense portion of these costs.

12
13 **Q. Why have you excluded costs related to the Customer Contact Center Incentive**
14 **Program from your adjustment?**

15 A. I have excluded these costs from my adjustment because this plan has very specific and
16 formulistic awards, and the underlying criteria does benefit ratepayers, at least in part. I do,
17 however, continue to have some concerns about this program. The award criteria include
18 attendance, quality of service, and average handle time, all of which provide some direct
19 benefit to ratepayers. However, these three criteria are already an integral part of a customer
20 representatives' job. Moreover, the average handle time benchmark could cause some
21 customer representatives to sacrifice quality for speed, which would have a detrimental

1 impact on ratepayers. Therefore, since the criteria for the Customer Contact Center Incentive
2 Program is better defined than the criteria for the other incentive programs, and may provide
3 some direct benefit to ratepayers, I have included these costs in my revenue requirement.
4 However, I would not object if the KCC found that these costs should also be borne by
5 shareholders, due to the fact that the incentives reward behavior that should be an integral
6 part of the employee position for which the employee is receiving a base salary.

7
8 **Q. Should the KCC be especially concerned about incentive compensation costs at this**
9 **time?**

10 A. Yes, it should. While the economy has improved somewhat, these are still difficult
11 economic times for Kansas customers. Moreover, as noted earlier, the Company's rate
12 request would increase rates for the average residential customer by approximately 22.0%.
13 There are still many utility customers in Kansas who are facing unemployment, home
14 foreclosures, and loss of value on their personal investments. Therefore, the KCC should be
15 especially vigilant in reviewing incentive compensation plans that result in total
16 compensation awards of millions of dollars, especially when a significant amount of such
17 compensation is awarded to the top five officers of Atmos.

18 Perhaps more importantly, utility commissions should take some action to stem the
19 ever-increasing officer compensation awards and to stop the cost spiral that results from the
20 benchmarking practice that is now common in the industry. It should be noted that in
21 addition to incentive compensation awards, Atmos employees are also receive annual payroll

1 increases and CURB has not recommended any adjustment to such increases. However, the
2 expansion of incentive compensation awards, especially those tied to financial benchmarks,
3 have not been beneficial for ratepayers. Utilities will have no incentive to moderate incentive
4 compensation payments until such time as regulatory commissions are willing to take a stand
5 against excessive compensation tied to financial incentives that benefit shareholders.

6
7 **C. Payroll Tax Expense**

8 **Q. Are you recommending any adjustments to the Company's payroll tax claim?**

9 A. Yes, I am recommending two adjustments. First, in developing its claim for payroll taxes,
10 the Company utilized a payroll tax rate of 8.0%. In response to CURB-73, the Company
11 indicated that this rate was "a roundup of the payroll tax of 7.65% (6.2% Social Security,
12 1.45% Medicare), which is what the Company utilizes when preparing its labor budget."
13 There is no rationale for using a payroll tax rate that is higher than the statutory tax. In fact,
14 many companies utilize a rate that is lower than the statutory rate of 7.65%, to reflect the fact
15 that labor costs over a certain limit are not subject to Social Security taxes. Therefore, at
16 Schedule ACC-9, I have made an adjustment to reflect the statutory payroll tax rate of 7.65%
17 instead of the 8.0% rate included in the Company's Application.

18
19 **Q. What is the second adjustment you made to the Company's payroll tax expense claim?**

20 A. Since I am recommending a reduction to the Company's payroll costs associated with
21 incentive compensation, it is necessary to make a corresponding adjustment to eliminate

1 certain payroll taxes associated with incentive compensation awards. At Schedule ACC-9, I
2 have made an adjustment to eliminate payroll taxes associated with my recommended
3 adjustments to the Company's VPP and MIP awards discussed above. I have not made any
4 adjustment to reflect payroll taxes associated with my recommended adjustment to the
5 Company's LTIP, because I am not sure of how these awards are taxed. However, it may also
6 be appropriate to make a similar adjustment for payroll taxes related to the LTIP incentive
7 awards.

8
9 **D. Employee Benefits Expense**

10 **Q. How did the Company determine its employee benefits expense claim in this case?**

11 A. As shown in Workpaper 9-3 to the Company's filing, Atmos developed its pro forma
12 employee benefits expense adjustment by first determining the ratio of employee benefit
13 expenses to gross labor costs based on its 2014 budget. Employee benefit expenses include
14 medical, dental, pension and workers compensation costs. These costs were determined to
15 be 37.93% of Shared Services labor costs and 42.08% of Colorado/Kansas business unit
16 costs. These percentages were then applied to the Company's pro forma payroll expense
17 adjustments to determine the corresponding adjustments to employee benefit expenses.

18
19 **Q. Are you recommending any adjustment to the Company's claim for employee benefit**
20 **expenses?**

21 A. Yes, I am recommending that the Commission reject the Company's proposed adjustment to

1 employee benefit costs. The proposed adjustment is based on the assumption that an increase
2 in labor costs will result in a proportional increase in employee benefit costs. However, as
3 shown in the Company's response to CURB-52, Atmos is actually projecting a decrease in
4 benefit costs in fiscal year 2014 relative to fiscal year 2013. Given this projection, there is no
5 basis for the Company's adjustment to increase its claim for employee benefit costs in this
6 case. My adjustment to reduce the Company's claim for employee benefit costs is shown in
7 Schedule ACC-11.

8
9 **E. Deferred Pension and OPEB Expense**

10 **Q. Please explain the Company's adjustment relating to deferred pension and OPEB costs.**

11 A. Pursuant to the KCC's order in Docket No. 10-ATMG-495-RTS ("495 Docket"), Atmos was
12 required to defer the difference between its actual annual pension and other post-employment
13 benefit ("OPEB") expenses and the annual amounts collected in rates relating to these
14 expenses. That Order also required the Company to amortize the resulting regulatory asset or
15 liability over a period not to exceed five years. In the 564 Docket, the parties to that
16 proceeding stipulated that the deferred balance in that case should be amortized over a period
17 of three years. In addition, Atmos was authorized to continue to defer the difference between
18 its actual annual pension and OPEB expenses and the annual amounts collected in rates
19 relating to these expenses.

20 In this filing, Atmos included adjustments based on estimated deferrals at September
21 30, 2014. Specifically, Atmos included a deferral of \$129,387 for its pension expenses and

1 of \$194,597 for its OBEP expenses, for a total of \$323,984. The Company proposed to
2 amortize this deferral over a three-year period, resulting in an adjustment of \$107,995.
3

4 **Q. Are you recommending any adjustments to the Company's claim?**

5 A. Yes, I am recommending two adjustments. First, I am recommending basing the
6 amortization of the regulatory asset on the asset balances at September 30, 2013, instead of
7 on the projected balances at September 30, 2014. Using a projected liability would require a
8 further true-up between the projections used to set rates in this case and the actual pension
9 and OBEP expenses, when known. In addition, the use of a projected liability would
10 effectively extend the Test Year by an additional twelve months. Instead, the Company
11 should continue to defer the difference between actual pension and OPEB expenses and
12 amounts collected in rates for recovery in its next base rate case over a period not to exceed
13 five years.
14

15 **Q. What is your second adjustment?**

16 A. I am recommending amortizing the deferred balance over five years, instead of over the
17 three-year period reflected in the Company's filing.
18

19 **Q. What is the basis for your recommendation?**

20 A. A five-year deferral is consistent with the guidance provided in KCC Docket No. 10-KGSG-
21 130-ACT and 10-WSEE-135-ACT. In the 495 Docket, which was the proceeding where the

1 Commission adopted the pension tracker for Atmos, the parties agreed that the “treatment of
2 the pension and other OPEB employment benefit costs is intended to be consistent with the
3 treatment of pension and other post employment costs outlined in dockets 10-WSEE-135-
4 ACT and 10-KGS-130-ACT.”⁴ The Orders in these cases expressly permit amortization to
5 periods of up to five years. In addition, the Stipulation in the 495 Docket stated that the
6 Company would implement the trackers “as set forth in Staff Witness Baldry’s Direct
7 Testimony (pages 23-29)....” Mr. Baldry’s testimony on page 23 provides for amortization
8 over a “reasonable period not to exceed five years....”. Given the magnitude of the
9 Company’s rate request in this case, I believe that a five-year amortization period is more
10 reasonable than the three-year period proposed by Atmos. At Schedule ACC-12, I have
11 utilized a five-year amortization period for deferred pension and OPEB costs.

12
13 **F. Supplemental Executive Retirement Plan (“SERP”) Expense**

14 **Q. What are SERP costs?**

15 **A.** These costs relate to a supplemental retirement plan that provides benefits for key executives
16 that are in addition to the normal retirement programs provided by the Company. These
17 supplemental retirements plans generally exceed various limits imposed on retirement
18 programs by the Internal Revenue Service (“IRS”) and therefore are referred to as “non-
19 qualified” plans. According to the Company’s Proxy Statement,

20 Our named executive officers (as well as most of our other officers, division
21 presidents and employees designated by the Board) also participate in a

4 Stipulation in Docket No. 10-ATMG-495-RTS, paragraph 13.

1 supplemental retirement plan, which provides retirement benefits (as well as
2 supplemental disability and death benefits). Generally, each of our named
3 executive officers who has participated in the plan for at least two years and
4 who have attained the age of 55 is entitled to an annual retirement
5 supplement in an amount that, when added to the annual retirement amount
6 payable to him under either the PA or RSP, equals 60 percent of his
7 compensation. The annual supplemental retirement amount will generally be
8 equal to the sum of the amount of the participant's last annual base salary and
9 the amount of his or her last award under the Incentive Plan, subject to
10 reductions for less than ten years of employment with the Company and for
11 retirement prior to age 62.
12

13 The amount of current compensation covered by the supplemental retirement plan at
14 the end of fiscal year 2013 ranged from approximately \$2.05 million for Mr. Cocklin to
15 \$597,992 for Mr. Haefner, according to the most recent Proxy Statement. The net present
16 value of the accumulated SERP benefits for the five NEOs is approximately \$14.66 million,
17 with an average of only 5.73 years of credited service. Moreover, the payouts under the
18 SERP benefits can be staggering. For example, when Mr. Best retired on April 1, 2013, the
19 payout pursuant to his SERP was \$16.81 million, according to the 2013 Proxy Statement.⁵
20

21 **Q. What are the Test Year SERP costs that the Company has included in its claim?**

22 A. As shown in the response to CURB-37, the Company included SERP costs from the Shared
23 Services Division of approximately \$4.13 million in its filing, approximately \$173,049 of
24 which were ultimately allocated to Kansas. In addition, the Colorado/Kansas division
25 directly incurred an additional \$537,492 of SERP costs. Approximately 58.99% of all costs
26 incurred by the Colorado/Kansas division were allocated to Kansas. Therefore, there is

1 \$490,116 of SERP costs included in the Company's expense claim in this case. In addition,
2 \$6.71 million of SERP costs from Shared Services and over \$600,000 of Colorado/Kansas
3 Division costs were capitalized. A portion of these capitalized costs is ultimately allocated to
4 various plant accounts and included in the Company's rate base. Therefore, even if the KCC
5 adopts my recommendation, Atmos will still be recovering millions of dollars in SERP costs
6 that have been capitalized and included in rate base.

7
8 **Q. Do you believe that these costs should be included in utility rates?**

9 A. No, I do not. As noted above, the officers of the Company are already well-compensated.
10 Moreover, employees that receive SERP benefits are also included in the normal retirement
11 plans of the Company, so ratepayers are already paying retirement costs for these employees.
12 CURB is not recommending any adjustment to the pension costs for these officers that is
13 included in the Company's qualified pension plan claim. Nor has CURB recommended any
14 reduction to the significant base salaries being awarded to these executives. However, if
15 Atmos wants to provide further, non-qualified retirement benefits to select officers, then
16 shareholders, not ratepayers, should fund these excess benefits. Therefore, I recommend that
17 the KCC disallow the Company's claim for SERP costs. My adjustment is shown in
18 Schedule ACC-13.

19
20 **G. Uncollectible Expense**

1 **Q. Are you recommending any adjustment to the Company's uncollectible expense claim**
2 **in this case?**

3 A. Yes, I am. The Company's uncollectible expense significantly exceeded its net write-offs
4 during the Test Year. As shown in the response to CURB-57, the actual Test Year
5 uncollectible expense was \$829,979 while net write-offs were only \$68,590. Moreover,
6 uncollectible expense has exceeded net write-offs in each of the past three years. During this
7 period, annual uncollectible expense averaged \$671,058 while net write-offs averaged only
8 \$351,372, or 52.3% of booked uncollectible expense.

9 Since uncollectible debt expense and actual write-offs are impacted by the total
10 magnitude of a customer's bill, including gas costs, it is reasonable to examine these costs
11 relative to the Company's total level of retail gas revenues. Over the past three years, net
12 write-offs to total gas revenues averaged 0.34%, slightly higher than the five-year average of
13 0.28%.

14
15 **Q. What uncollectible rate do you recommend the Commission use to determine pro forma**
16 **uncollectible expense in this case?**

17 A. To quantify my pro forma adjustment, I first examined the percentage of total net write-offs
18 to total retail gas revenues, as reported in the response to CURB-57. Given fluctuations in net
19 write-offs that occur from year-to-year, I believe it is reasonable to utilize a multi-year
20 average. Therefore, I applied the three-year average of net write-offs to total retail gas
21 revenues of 0.34% to the Company's actual Test Year total gas revenues in order to develop

1 a level of pro forma uncollectible expense. The use of a multi-year average is common in
 2 cases where uncollectible expense fluctuates significantly from year to year. My adjustment
 3 is shown in Schedule ACC-14.

4
 5 **H. Injuries and Damages Expenses**

6 **Q. Are you recommending any adjustment to the Company's claim for injuries and**
 7 **damages expense?**

8 A. Yes, I am. The Company's Test Year expense claim was significantly greater than costs in
 9 any of the previous four periods reported in the Company's Application, as shown below:⁶

Twelve Months Ending	Injuries and Damages Expenses
September 30, 2013	\$305,137
September 30, 2012	\$63,938
December 31, 2012	\$42,935
December 31, 2011	\$82,990
December 31, 2010	\$48,434

10
 11 This increase was largely the result of costs incurred by the Kansas Division. Directly-
 12 incurred costs during the Test Year for the Kansas Division (Division 81) were \$264,779
 13 while the average for the previous four fiscal years was only \$28,049.⁷ Thus, the actual Test
 14 Year injuries and damages expenses do not appear representative of a normal, on-going level
 15 of prospective costs. Therefore, I am recommending that the KCC make an adjustment to
 16 reflect a pro forma level of injuries and damages expense that is more representative of a

⁶ Note that the Application contained information on the twelve months ending September 30, 2013, September 30, 2012, December 31, 2012, December 31, 2011, and December 31, 2010.

⁷ Per the response to CURB-59.

1 normalized level.

2
3 **Q. How did you quantify your adjustment?**

4 A. I utilized the average of the last reporting periods shown in Section 8 of the Application for
5 Account 9250, Injuries and Damages. This resulted in a pro forma cost of \$108,687, instead
6 of the \$305,137 included in the Company's claim. My adjustment is shown in Schedule
7 ACC-15.

8
9 **I. Regulatory Commission Expense**

10 **Q. How did the Company determine its rate case expense claim in this case?**

11 A. The Company's claim is based on projected costs for the current case of \$229,000. As
12 shown in the workpapers to the Company's filing (Workpaper 9-6), the Company's claim
13 consists of the following:

14

Consulting Fees – Cost of Service/ Rate Design	\$35,000
Legal Fees	\$80,000
Consulting Fees – ROE	\$50,000
Employee Expenses	\$9,000
Miscellaneous Expenses	\$55,000
Total	\$229,000

15
16
17
18

19 In addition, the Company included \$91,753 in unrecovered costs from the 564 Docket, for a
20 total claim of \$320,753. Atmos proposed to amortize these costs over a two-year period, for
21 an annual amortization expense of \$160,376. The Company included this full amount of

1 \$160,365 as an adjustment in its filing (IS-5).

2

3 **Q. Did the Company subsequently revise its proposed adjustment?**

4 A. Yes, it did. In the response to KCC-89, Atmos indicated that its proposed adjustment needed
5 to be revised for four items: 1) to include Staff and CURB expenses, 2) to correct the amount
6 related to prior rate case costs, 3) to adjust for amounts already reflected in the Test Year, and
7 4) to remove certain non-recurring Test Year costs. The Company indicated that its revised
8 adjustment IS-5 should reflect a net expense adjustment of \$98,101 instead of the \$160,376
9 included in its Application. Therefore, at Schedule ACC-16, I have made an adjustment to
10 reflect this update.

11

12 **Q. Are you recommending any other adjustment to the Company's rate case expense**
13 **claim?**

14 A. Yes, I am recommending that the Commission amortize costs over a three- year period
15 instead of over the two-year period proposed by Atmos. The Commission has traditionally
16 used a three-year amortization period to amortize rate case costs. Should the Company file
17 another case sooner than three years, it would still be made whole for rate case costs as long
18 as the KCC permits the Company to include any unrecovered rate case costs in its new base
19 rates. Therefore, I believe that a three-year amortization period is reasonable. My
20 adjustment to reflect a three-year amortization period is shown in Schedule ACC-17.

21

1 **J. Advertising Expense**

2 **Q. Are you recommending any adjustment to the Company's claim for advertising costs?**

3 A. Yes, I am recommending that the KCC disallow a portion of these costs. In KCC-52, the
4 Company was asked to identify its Test Year advertising costs by type of advertising, i.e.,
5 promotional (corporate image), educational, safety, economic development, and any other
6 applicable categories. I am recommending that the Company's claim for promotional
7 advertising costs be disallowed.

8
9 **Q. What is the basis for your recommendation?**

10 A. Promotional or corporate advertising is not necessary for the provision of utility service and
11 these costs should not be recovered from ratepayers. Promotional advertising generally
12 promotes the corporate image of the utility, which benefits the utility's shareholders.
13 Therefore, I am recommending that promotional advertising costs be disallowed.

14
15 **Q. What is the total amount of the advertising costs that you recommend the KCC
16 disallow?**

17 A. Based on the information provided in the response to KCC-52, and assuming the various
18 allocation factors used by Atmos to allocate various division costs to the Kansas jurisdiction,
19 I am recommending disallowance of \$35,204 of costs allocated or directly assigned to the
20 Kansas jurisdiction. My adjustment is shown in Schedule ACC-18. My adjustment is
21 limited to expenditures identified by Atmos as promotional advertising. I have not made any

1 adjustments to the other advertising categories included in the Company's claim. However,
2 Atmos has also included costs relating to Community Relations and Trade Shows. To the
3 extent that such expenditures related to corporate promotion, rather than education of
4 customers or utility safety issues, then it would be appropriate for the Commission to
5 eliminate these costs as well.

6
7 **K. Membership Dues Expense**

8 **Q. Did the Company make an adjustment to eliminate certain lobbying costs incurred**
9 **during the Test Year?**

10 A. Yes, it did. As shown on Workpaper 9-4, IS-3, Atmos included an adjustment to remove a
11 portion of its Test Year dues to the American Gas Association ("AGA"). Specifically, the
12 Company removed 25.16% of dues paid in 2012 and 23.85% of dues paid in 2013. These
13 were the percentages of dues identified by the AGA as related to "Advertising and Public
14 Affairs" for 2012 and 2013.

15
16 **Q. Do you believe that a further adjustment is warranted?**

17 A. Yes, I do. In response to KCC-62, Atmos identified various membership costs and dues that
18 are included in its claim. Many of these organizations are Chambers of Commerce which
19 typically engage in lobbying activities, the costs of which should not be charged to
20 ratepayers.

1 Q. **Are lobbying costs an appropriate expense to include in a regulated utility's cost of**
2 **service?**

3 A. No, they are not. Lobbying expenses are not necessary for the provision of safe and adequate
4 utility service. Atmos recognized this fact by making an adjustment to the dues paid to the
5 AGA that relate to lobbying activities. Ratepayers have the ability to lobby on their own
6 through the legislative process. Moreover, lobbying activities have no functional relationship
7 to the provision of safe and adequate regulated utility service. If the Company were to
8 immediately cease contributing to these types of efforts, utility service would in no way be
9 disrupted. For all these reasons, I recommend that the KCC disallow costs associated with
10 lobbying activities.

11
12 Q. **How did you quantify your adjustment?**

13 A. I am recommending disallowance of 15% of the Company's Chamber of Commerce
14 membership dues identified in the response to KCC-62 on the basis that such costs constitute
15 lobbying activities or should not otherwise be charged to cost of service. I recognize that the
16 specific level of lobbying/public affairs/media activity varies from organization to
17 organization. However, based on my review of these organizations over the years in dozens
18 of utility rate proceedings, I believe that a 15% disallowance is a reasonable overall
19 recommendation. My adjustment is shown in Schedule ACC-19.

20
21 L. **Meals and Entertainment Expense**

1 **Q. Are you recommending any adjustment to the Company's meals and entertainment**
2 **expense claim?**

3 A. Yes, I am. The Company has included in its filing \$153,843 of meals and entertainment
4 expenses that are not deductible on the Company's income tax return. This includes costs
5 incurred directly by the Kansas Division as well as costs that are allocated to Kansas from
6 other divisions. The IRS typically limits recovery of meals and entertainment expenses to
7 50% on the basis that a portion of these expenditures are not appropriate deductions for
8 federal tax purposes. If these costs are not deemed to be appropriate business expenses by
9 the IRS, it seems reasonable to conclude that they are not appropriate business expenses to
10 include in a regulated utility's cost of service. Accordingly, at Schedule ACC-20, I have
11 made an adjustment to eliminate these costs from the Company's revenue requirement.
12 While there may be certain costs for meals that should be borne by ratepayers, there are also
13 likely to be costs included in this category that should be entirely excluded from the
14 Company's revenue requirement. Therefore, my recommendation to use the 50% IRS
15 criteria provides a reasonable balance between shareholders and ratepayers and should be
16 adopted by the KCC.

17
18 **M. Relocation Expense**

19 **Q. Are you recommending any adjustment to the Company's Test Year claim for**
20 **relocation expenses?**

21 A. Yes, I am. In the Test Year, the Colorado/Kansas General Office (Division 30) incurred

1 unusually high relocation costs. For example, in fiscal year 2013, Division 30 incurred
2 \$130,800 of relocation costs relative to costs of \$14,234 in fiscal year 2012 and \$20,691 in
3 fiscal year 2011.⁸ Since 58.99% of these costs are allocated to Kansas, the result was Test
4 Year relocation expenses that were high relative to historic levels. Therefore, I am
5 recommending that the KCC make an adjustment to reflect a more representative level of
6 prospective costs.

7
8 **Q. How did you quantify your adjustment?**

9 A. I have made an adjustment to reflect relocation expenses based on a three-year average of
10 relocation costs incurred by, or allocated to, Kansas. To determine my adjustment, I first
11 averaged the costs incurred by each division over the past three years, and then allocated
12 those costs to Kansas based on the allocation factors contained in the current filing. My
13 adjustment is shown in Schedule ACC-21.

14
15 **N. Property Tax Expense**

16 **Q. Have you made any adjustment to the Company's claim for property tax expenses?**

17 A. Yes, I have made one adjustment. The Company included a pro forma adjustment to
18 increase property tax expense to reflect property taxes associated with its CWIP claim. To
19 calculate this adjustment, the Company applied a pro forma property tax rate of 2.41% to its
20 adjusted CWIP. Since I have made an adjustment to reduce the Company's CWIP claim, it is

⁸ Response to CURB-30.

1 necessary to make a corresponding adjustment to reduce the Company's property tax expense
2 claim to eliminate property taxes on the CWIP that I recommend be disallowed. To quantify
3 my adjustment, I accepted the property tax rate of 2.41% reflected in the Company's filing
4 and applied it to my pro forma CWIP adjustment. My property tax expense adjustment is
5 shown in Schedule ACC-22.

6
7 **O. Interest Synchronization and Taxes**

8 **Q. Have you adjusted the pro forma interest expense for income tax purposes?**

9 A. Yes, I made this adjustment at Schedule ACC-23. It is consistent (synchronized) with
10 CURB's recommended rate base, capital structure, and cost of capital recommendations.
11 CURB is recommending a lower rate base than the rate base that the Company included in its
12 filing. CURB's recommendation results in lower pro forma interest expense for the
13 Company. This lower interest expense, which is an income tax deduction for state and
14 federal tax purposes, will result in an increase to the Company's income tax liability under
15 CURB's recommendations. Therefore, CURB's recommendations result in an interest
16 synchronization adjustment that reflects a higher income tax burden for the Company, and a
17 decrease to pro forma income at present rates.

18
19 **Q. What income tax factor have you used to quantify your adjustments?**

20 A. As shown on Schedule ACC-24, I have used a composite income tax factor of 39.55%,
21 which includes a state income tax rate of 7.0% and a federal income tax rate of 35.0%.

1 These are the state and federal income tax rates contained in the Company's filing.

2
3 **Q. What revenue multiplier have you used in your revenue requirement?**

4 **A.** My recommendations result in a revenue multiplier of 1.6598, as shown on Schedule ACC-
5 25. This revenue multiplier reflects the state and federal income tax rates stated above. In
6 addition, I have included uncollectible expense at the rate of 0.34% recommended earlier in
7 my testimony.

8
9 **VII. REVENUE REQUIREMENT SUMMARY**

10 **Q. What is the result of the recommendations contained in your testimony?**

11 **A.** My adjustments indicate a revenue requirement surplus at present rates of \$507,853 as
12 summarized on Schedule ACC-1. This recommendation reflects revenue requirement
13 adjustments of \$7,513,068 to the revenue increase of \$7,005,215 requested by Atmos.

14
15 **Q. Have you quantified the revenue requirement impact of each of your recommended
16 adjustments?**

17 **A.** Yes, at Schedule ACC-26, I have quantified the impact on the Company's revenue
18 requirement of CURB's rate of return, rate base, revenue and operating expense adjustments.

19
20 **Q. Have you developed a pro forma income statement?**

21 **A.** Yes, Schedule ACC-27 contains a pro forma income statement, showing utility operating

1 income under several scenarios, including the Company's claimed operating income at
2 present rates, my recommended operating income at present rates, and operating income
3 under my proposed rate increase. My recommendations will result in an overall return on
4 rate base of 7.39% as recommended by Dr. Woolridge.

5
6 **VIII. REGULATORY ASSET FOR SYSTEM INTEGRITY INVESTMENT**

7 **Q. Please describe the regulatory asset related to system integrity investment proposed by**
8 **Atmos in this case.**

9 **A.** The Company is requesting that the KCC approve a ratemaking mechanism whereby Atmos
10 would be permitted to defer the costs of various investment projects that go into service
11 between base rate cases.⁹ Specifically, the Company is seeking to defer:¹⁰

12 ...all costs incurred in connection with the acquisition, installation and
13 operation (including related depreciation and taxes) for the following natural
14 gas utility plant projects:

- 15
16 a. Installation of natural gas distribution and transmission facilities to
17 comply with local, state and federal safety requirements as
18 replacements for existing facilities; projects undertaken to extend the
19 useful life or enhance the integrity of natural gas distribution and
20 transmission facilities to comply with local, state and federal safety
21 requirements; and,
22
23 b. Facility relocations required due to construction or improvement of a
24 highway, road, street, public way or other public work by or on behalf
25 of the United States, this state, a political subdivision of this state or
26 another entity having the power of eminent domain provided that the
27 costs related to such projects have not been reimbursed to the natural
28 gas public utility.

9 In response to KCC-181, Atmos termed the proposed asset the System Integrity Regulatory Asset or SIRA.

10 Proposed Regulatory Asset Tariff, Company Filing, Section 18.

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The proposed tariff further provides that the Company may record interest on the balance in the regulatory asset account based on the pretax cost of capital last approved for the utility until such amounts are included in, and recovered through, rates in the Company’s subsequent rate filing.

Q. What specific investments does the Company propose to include in its regulatory asset?

A. The Company has not provided much specificity regarding the types of projects to be included, other than testifying that they would include “system integrity investment.” The proposed tariff is broad in its description of the types of projects to be included and it is likely that the Company could use the tariff to justify the inclusion of almost any project. Atmos has indicated that it does not intend to include revenue-producing projects in its regulatory asset.¹¹

Q. Would projects that are currently eligible for recovery through the Gas System Reliability Surcharge (“GSRS”) also be included in the regulatory asset?

A. Yes, they would. As described in the response to KCC-181, the Company acknowledges that all GSRS projects would be eligible to be included in the regulatory asset. Atmos proposes that costs for GSRS-eligible projects would be deferred through the regulatory asset until such time as the costs are reflected in the new GSRS rate.

¹¹ Response to KCC-188.

1

2 **Q. Would operating expenses related to the additional investment also be deferred?**

3 A. The proposed tariff provides for the inclusion of costs related to the “operation” of the
4 investment. Therefore, there is nothing in the tariff that would prevent the Company from
5 including operation and maintenance expense in the regulatory asset. In response to KCC-
6 179, Atmos stated that it “does not anticipate operating and maintenance (O&M) type
7 expenses” would be included “at this time”, however if certain types of “one-time O&M
8 related” costs were incurred, these costs may in fact be included in the regulatory asset.

9

10 **Q. What return is the Company proposing for the regulatory asset?**

11 A. The Company is proposing that the regulatory asset accrue interest at the pre-tax cost of
12 capital authorized in the rate case. Thus, under the Company’s proposal, not only would it be
13 deferring certain costs for future recovery, but it would also be deferring the return
14 requirement on these costs, including the gross-up for federal and state income taxes.

15

16 **Q. Do you support the regulatory asset proposed by Atmos in this case for system integrity
17 investment?**

18 A. No, I do not. The Company has not demonstrated that a new ratemaking mechanism is
19 required in order to provide for necessary system investment. The Company’s proposal is
20 based on its claim that the proposed regulatory asset will “reduce regulatory lag and promote

1 margin stability without burdening itself or regulators with annual rate cases.”¹² However,
2 the regulatory asset in fact is another mechanism that will enhance shareholder returns, shift
3 risk from ratepayers to shareholders, and ultimately increase rates for Kansas ratepayers.

4 Moreover, Atmos has not demonstrated that such a mechanism is necessary in order
5 to make the investments required in the Kansas system. While I understand that shareholders
6 would like to increase their returns and reduce their risk, the Company has not demonstrated
7 that a regulatory asset is necessary in order for Atmos to meet its service obligations.
8 Moreover, Atmos is proposing to utilize the regulatory asset for a broad range of projects.
9 The Company’s proposal is not limited to a specific major project that cannot be financed in
10 the traditional manner. Instead, Atmos is proposing a sweeping new regulatory mechanism
11 that will ensure that shareholders are made “whole” for costs incurred between base rate
12 cases. Replacing existing facilities, complying with safety requirements, and undertaking
13 facility relocations are not new concepts. Instead, they are integral activities incurred in the
14 provision of utility service. The regulatory compact provides that in exchange for being
15 granted a monopoly franchise area, a utility will provide safe and reliable utility service at
16 reasonable rates. The obligation to provide safe and reliable service is a cornerstone of the
17 utility’s obligations. Thus, the concept of undertaking such investment, when required, is not
18 new or novel. Rather, this is a fundamental obligation of any gas distribution company.

19
20 **Q. How does the regulatory asset envisioned by Atmos fundamentally differ from base**

12 Testimony of Mr. Christian, page 21.

1 **rate recovery?**

2 A. Under the traditional ratemaking mechanism, shareholders bear the risk of recovery between
3 base rate cases. In addition, shareholders also benefit from regulatory lag between base rate
4 case proceedings if expenses are less than anticipated or if revenues are higher than
5 projected. However, contrary to economic theory and good ratemaking practice, the
6 proposed regulatory asset will increase shareholder return while significantly reducing risk.
7 This is because shareholders will no longer be at risk for incremental capital costs between
8 base rate cases. Instead, shareholders will recover a return on, and a return of, their entire
9 investment since all costs will be deferred for recovery through a subsequent base rate case.
10 Shareholder risk associated with new investment has already been significant reduced in
11 Kansas through implementation of the GSRS. This risk will be virtually eliminated if the
12 Company's proposal is adopted.

13 In addition, the regulatory asset proposed by Atmos is not dependent upon the
14 earnings of the Company, meaning that Atmos could defer these costs even it were otherwise
15 earning is authorized return.

16

17 **Q. Is the Company proposing any reduction to its cost of equity to reflect the lower risk**
18 **inherent in the regulatory asset?**

19 A. No, it is not. In spite of the fact that the regulatory asset would reduce shareholder risk, and
20 will transfer that risk to ratepayers, the Company has not proposed any reduction to the cost
21 of equity to be paid by ratepayers. As stated earlier, Atmos is proposing that the return

1 authorized in each base rate case be used to calculate interest associated with the regulatory
2 asset. Thus, the Company's proposal provides exactly the wrong movement in return on
3 equity that one would expect, given the resulting reduction in shareholder risk.

4

5 **Q. Don't shareholders bear the risk of having the KCC deny recovery of deferred amounts**
6 **in the next base rate case?**

7 A. The Company has provided very little information about how any such review would work or
8 what criteria would be used by the KCC in a base rate case to evaluate a claim for recovery
9 of the regulatory asset. Presumably the KCC could deny recovery of the regulatory asset in a
10 base rate case if it found that the investment was imprudent or did not meet other standards
11 for recovery. In practice, I find it very unlikely that the KCC would actually disallow such
12 investment. The fact is that disallowance of investment costs by regulatory agencies is
13 extremely rare.

14

15 **Q. Could a regulatory asset change the process currently used by Atmos to prioritize**
16 **investment projects?**

17 A. Yes, it could. The establishment of a regulatory asset could reduce the Company's incentive
18 to undertake reliability projects based on identified need, and instead could provide an
19 incentive to unnecessarily accelerate spending knowing that shareholders will earn a return
20 on any such expenditures and that recovery of such expenditures is virtually guaranteed.
21 Under the present regulatory mechanism, Atmos has to prioritize not only its total

1 expenditures, but also the expenditures earmarked for reliability projects. Therefore, the
2 Company must make choices about how much to spend and how to spend it, while meeting
3 its mandate to provide safe and reliable utility service. If, however, the Company is
4 permitted to establish a regulatory asset to recover costs incurred between base rate cases,
5 Atmos will have much less incentive to prioritize capital investment based on actual need
6 and more incentive to undertake investment for the purpose of increasing shareholder return.

7 Ratemaking is supposed to be a substitute for competition. In a competitive
8 marketplace, a company is not guaranteed to recover costs and shareholders are not
9 guaranteed to earn a specific level of profit. The entire regulatory paradigm appears to be at
10 risk as utilities have successfully argued that the base rate case recovery mechanism, which
11 provided incentives for effective management and permitted shareholders the opportunity to
12 earn a reasonable return, should be discarded in place of a myriad of other recovery
13 mechanisms surcharges that guarantee recovery, reduce shareholder risk, and remove
14 incentives for effective cost control.

15
16 **Q. Did Atmos make a similar recommendation in its last base rate case?**

17 **A.** Yes, it did. In its last base rate case, Atmos proposed a revenue stabilization plan that
18 included a regulatory asset similar to what is being proposed here. In the Stipulation in that
19 case, the Company agreed to withdraw its proposal.

20

1 **Q. Does the Company already have a mechanism to recover certain investment costs**
2 **between base rate cases?**

3 A. Yes, it does. The Company already has a GSRS rider that provides for the recovery of these
4 types of gas investments between base rate case proceedings. The GSRS was adopted by the
5 legislature in response to concerns raised by the Kansas gas utilities regarding regulatory lag,
6 the same concerns that are being raised by Atmos in this case. In an effort to reduce
7 regulatory lag, the Legislature adopted legislation permitting gas utilities to establish a
8 surcharge to begin recovery of capital costs associated with infrastructure investment
9 between base rate cases. However, the Legislature also found that the utility's concerns
10 regarding regulatory lag should be balanced with certain ratepayer protections. Accordingly,
11 the Legislature limited the amount of increases in the GSRS surcharge to \$0.40 per
12 residential customer. This limitation promotes rate stability and ensures that residential
13 customers will not be unduly burdened with steep increases between base rate case filings.
14 In addition, the Legislature limited the period over which a GSRS could be collected to 60
15 months unless a base rate case is filed. This requirement ensures that the KCC has the
16 opportunity to periodically assess all components of the Company's revenue requirement and
17 to establish an appropriate cost of capital at regular intervals.

18 The Company's proposal for a regulatory asset attempts to expand the GSRS by
19 providing for recovery of costs that are not yet otherwise reflected in the GSRS and by
20 including operating expenses in the deferral. In addition, the proposed regulatory asset
21 would not be subject to the ratepayer safeguards that are present in the GSRS statute,

1 including the requirement that the Company have a base rate case at least every five years as
2 well as a limit on the amount of the annual increase in the surcharge. If gas utilities believe
3 that the GSRS is not adequate to ensure their financial integrity, then they should promote
4 new legislation to address their concerns. They should not attempt to revise the GSRS
5 Legislation by asking the KCC to expand recovery of investment between base rate cases.
6

7 **Q. Has the KCC rejected investment-recovery proposals made by other gas utilities?**

8 A. Yes, it has. In KCC Docket No. 12-KGSG-721-TAR, the KCC rejected a proposal by
9 Kansas Gas Service (“KGS”) to implement an Infrastructure Replacement Program
10 Surcharge to fund the replacement of gas iron mains. While the KCC stated that it “continues
11 to find infrastructure replacement should be a priority”, it also found that that “the cost
12 should be recovered through the legislatively-approved GSRS mechanism.”¹³ The KCC went
13 on to state that “...the GSRS was enacted by the legislature to reduce regulatory lag and allow
14 cost-recovery between rate cases. At this time, the Commission does not wish to eschew the
15 legislature’s preferred mechanism for this situation.”¹⁴

16 The Company’s filing in this case provides no new information that would result in a
17 different finding by the KCC. In fact, the Company’s filing in this case is much less defined
18 than the program proposed by KGS and rejected by the KCC. Unlike the Company’s
19 proposal in this case, the KGS proposal was specific with regard to the amount, purpose, and
20 timing of the investment. Nevertheless, the KCC found that KGS did not quantify the

13 Order in KCC Docket No. 12-KGSG-721-TAR, paragraph 27.

1 benefits of accelerating investment in its infrastructure or of implementing a new recovery
2 mechanism for that investment. In this case, Atmos has not even attempted to quantify any
3 benefits of its proposal. Nor has Atmos shown that the GSRS is inadequate to ensure
4 sufficient financing for infrastructure investment. The only benefits identified by the
5 Company are a decrease in regulatory lag and an increase in shareholder value, neither of
6 which are sufficient to adopt a new regulatory mechanism that will put a further burden on
7 Kansas ratepayers.

8
9 **Q. What do you recommend?**

10 A. I recommend that the KCC reject the Company's proposal to establish a regulatory asset for
11 recovery of system integrity investment. The Kansas Legislature has already provided a
12 mechanism to reduce regulatory lag associated with gas utility investment, the GSRS. The
13 Company has not demonstrated why an additional mechanism is required. The Company's
14 proposed regulatory asset is an attempt to have the KCC expand this legislation and to
15 remove the specific ratepayer safeguards that were imposed by the Legislature. Accordingly,
16 the KCC should deny the Company's request to establish a regulatory asset. Instead, the
17 Company should continue to utilize the GSRS mechanism authorized by the Legislature.

18
19 **Q. Does this conclude your testimony?**

20 A. Yes, it does.

14 Id., paragraph 28.

VERIFICATION

STATE OF CONNECTICUT)

COUNTY OF FAIRFIELD) ss:

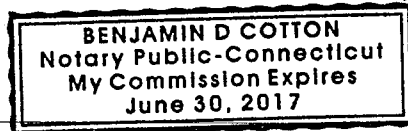
Andrea C. Crane, being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing testimony, and that the statements made herein are true to the best of her knowledge, information and belief

Andrea C. Crane
Andrea C. Crane

Subscribed and sworn before me this 19th day of May, 2014.

Notary Public *Benjamin Cotton*

My Commission Expires: _____



APPENDIX A

List of Prior Testimonies

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Atmos Energy Company	G	Kansas	14-ATMG-320-RTS	5/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Rockland Electric Company	E	New Jersey	ER13111135	5/14	Revenue Requirements	Division of Rate Counsel
Kansas City Power and Light Company	E	Kansas	14-KCPE-272-RTS	4/14	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Comcast Cable Communications	C	New Jersey	CR13100885-906	3/14	Cable Rates	Division of Rate Counsel
New Mexico Gas Company	G	New Mexico	13-00231-UT	2/14	Merger Policy	Office of Attorney General
Water Service Corporation (Kentucky)	W	Kentucky	2013-00237	2/14	Revenue Requirements	Office of Attorney General
Oneok, Inc. and Kansas Gas Service	G	Kansas	14-KGSG-100-MIS	12/13	Plan of Reorganization	Citizens' Utility Ratepayer Board
Public Service Electric & Gas Company	E/G	New Jersey	EO13020155 GO13020156	10/13	Energy Strong Program	Division of Rate Counsel
Southwestern Public Service Company	E	New Mexico	12-00350-UT	8/13	Cost of Capital, RPS Rider, Gain on Sale, Allocations	New Mexico Office of Attorney General
Westar Energy, Inc.	E	Kansas	13-WSEE-629-RTS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	13-115	8/13	Revenue Requirements	Division of the Public Advocate
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-447-MIS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Jersey Central Power & Light Company	E	New Jersey	ER12111052	6/13	Reliability Cost Recovery Consolidated Income Taxes	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	13-MKEE-447-MIS	5/13	Transfer of Certificate Regulatory Policy	Citizens' Utility Ratepayer Board
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-452-MIS	5/13	Formula Rates	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	12-450F	3/13	Gas Sales Rates	Attorney General
Public Service Electric and Gas Co.	E	New Jersey	EO12080721	1/13	Solar 4 All - Extension Program	Division of Rate Counsel
Public Service Electric and Gas Co.	E	New Jersey	EO12080726	1/13	Solar Loan III Program	Division of Rate Counsel
Lane Scott Electric Cooperative	E	Kansas	12-MKEE-410-RTS	11/12	Acquisition Premium, Policy Issues	Citizens' Utility Ratepayer Board
Kansas Gas Service	G	Kansas	12-KGSG-835-RTS	9/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	12-KCPE-764-RTS	8/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Woonsocket Water Division	W	Rhode Island	4320	7/12	Revenue Requirements	Division of Public Utilities and Carriers
Atmos Energy Company	G	Kansas	12-ATMG-564-RTS	6/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	110258	5/12	Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company (Western)	E	Kansas	12-MKEE-491-RTS	5/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Atlantic City Electric Company	E	New Jersey	ER11080469	4/12	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	12-MKEE-380-RTS	4/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	11-381F	2/12	Gas Cost Rates	Division of the Public Advocate
Atlantic City Electric Company	E	New Jersey	EO11110650	2/12	Infrastructure Investment Program (IIP-2)	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	11-384F	2/12	Gas Service Rates	Division of the Public Advocate
New Jersey American Water Co.	WWW	New Jersey	WR11070460	1/12	Consolidated Income Taxes Cash Working Capital	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	12-WSEE-112-RTS	1/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Puget Sound Energy, Inc.	E/G	Washington	UE-111048 UG-111049	12/11	Conservation Incentive Program and Others	Public Counsel
Puget Sound Energy, Inc.	G	Washington	UG-110723	10/11	Pipeline Replacement Tracker	Public Counsel
Empire District Electric Company	E	Kansas	11-EPDE-856-RTS	10/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable	C	New Jersey	CR11030116-117	9/11	Forms 1240 and 1205	Division of Rate Counsel
Artesian Water Company	W	Delaware	11-207	9/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS (Remand)	7/11	Rate Case Costs	Citizens' Utility Ratepayer Board
Midwest Energy, Inc.	G	Kansas	11-MDWE-609-RTS	7/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power & Light Company	E	Kansas	11-KCPE-581-PRE	6/11	Pre-Determination of Ratemaking Principles	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	10-421	5/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company	E	Kansas	11-MKEE-439-RTS	4/11	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
South Jersey Gas Company	G	New Jersey	GR10060378-79	3/11	BGSS / CIP	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	10-296F	3/11	Gas Service Rates	Division of the Public Advocate
Westar Energy, Inc.	E	Kansas	11-WSEE-377-PRE	2/11	Pre-Determination of Wind Investment	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	10-295F	2/11	Gas Cost Rates	Attorney General
Delmarva Power and Light Company	G	Delaware	10-237	10/10	Revenue Requirements Cost of Capital	Division of the Public Advocate
Pawtucket Water Supply Board	W	Rhode Island	4171	7/10	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey Natural Gas Company	G	New Jersey	GR10030225	7/10	RGGI Programs and Cost Recovery	Division of Rate Counsel

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atmos Energy Corp.	G	Kansas	10-ATMG-495-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	10-EPDE-314-RTS	3/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	09-414 and 09-276T	2/10	Cost of Capital Rate Design Policy Issues	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	09-385F	2/10	Gas Cost Rates	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	09-398F	1/10	Gas Service Rates	Division of the Public Advocate
Public Service Electric and Gas Company	E	New Jersey	ER09020113	11/09	Societal Benefit Charge Non-Utility Generation Charge	Division of Rate Counsel
Delmarva Power and Light Company	G	Delaware	09-277T	11/09	Rate Design	Division of the Public Advocate
Public Service Electric and Gas Company	E/G	New Jersey	GR09050422	11/09	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	09-MKEE-969-RTS	10/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy, Inc.	E	Kansas	09-WSEE-925-RTS	9/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08050326 EO08080542	8/09	Demand Response Programs	Division of Rate Counsel
Public Service Electric and Gas Company	E	New Jersey	EO09030249	7/09	Solar Loan II Program	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	09-MDWE-792-RTS	7/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy and KG&E	E	Kansas	09-WSEE-641-GIE	6/09	Rate Consolidation	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	09-60	6/09	Cost of Capital	Division of the Public Advocate
Rockland Electric Company	E	New Jersey	GO09020097	6/09	SREC-Based Financing Program	Division of Rate Counsel
Tidewater Utilities, Inc.	W	Delaware	09-29	6/09	Revenue Requirements Cost of Capital	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	08-269F	3/09	Gas Service Rates	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	08-266F	2/09	Gas Cost Rates	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	09-KCPE-246-RTS	2/09	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08090840	1/09	Solar Financing Program	Division of Rate Counsel
Atlantic City Electric Company	E	New Jersey	EO06100744 EO08100875	1/09	Solar Financing Program	Division of Rate Counsel

The Columbia Group, Inc., Testimonies of Andrea C. Crane

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
West Virginia-American Water Company	W	West Virginia	08-0900-W-42T	11/08	Revenue Requirements	The Consumer Advocate Division of the PSC
Westar Energy, Inc.	E	Kansas	08-WSEE-1041-RTS	9/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Artesian Water Company	W	Delaware	08-96	9/08	Cost of Capital, Revenue, New Headquarters	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR08020113	9/08	Form 1205 Equipment & Installation Rates	Division of Rate Counsel
Pawtucket Water Supply Board	W	Rhode Island	3945	7/08	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey American Water Co.	W/WW	New Jersey	WR08010020	7/08	Consolidated Income Taxes	Division of Rate Counsel
New Jersey Natural Gas Company	G	New Jersey	GR07110889	5/08	Revenue Requirements	Division of Rate Counsel
Kansas Electric Power Cooperative, Inc.	E	Kansas	08-KEPE-597-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Company	E	New Jersey	EX02060363 EA02060366	5/08	Deferred Balances Audit	Division of Rate Counsel
Cablevision Systems Corporation	C	New Jersey	CR07110894, et al.	5/08	Forms 1240 and 1205	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	08-MDWE-594-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	07-246F	4/08	Gas Service Rates	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR07100717-946	3/08	Form 1240	Division of Rate Counsel
Generic Commission Investigation	G	New Mexico	07-00340-UT	3/08	Weather Normalization	New Mexico Office of Attorney General
Southwestern Public Service Company	E	New Mexico	07-00319-UT	3/08	Revenue Requirements Cost of Capital	New Mexico Office of Attorney General
Delmarva Power and Light Company	G	Delaware	07-239F	2/08	Gas Cost Rates	Division of the Public Advocate
Atmos Energy Corp.	G	Kansas	08-ATMG-280-RTS	1/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

APPENDIX B

Supporting Schedules

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

REVENUE REQUIREMENT SUMMARY

	Company Claim	Recommended Adjustment	Recommended Position	
	(A)			
1. Pro Forma Rate Base	\$184,199,230	(\$10,704,059)	\$173,495,171	(B)
2. Required Cost of Capital	8.44%	-1.05%	7.39%	(C)
3. Required Return	\$15,546,415	(\$2,719,660)	\$12,826,755	
4. Operating Income @ Present Rates	11,325,962	1,806,761	13,132,722	(D)
5. Operating Income Deficiency	\$4,220,453	(\$4,526,421)	(\$305,967)	
6. Revenue Multiplier	1.6598		1.6598	(E)
7. Revenue Requirement Increase	<u>\$7,005,215</u>	<u>(\$7,513,068)</u>	<u>(\$507,853)</u>	

Sources:

(A) Derived from Company Filing, Section 3.

(B) Schedule ACC-3.

(C) Schedule ACC-2.

(D) Schedule ACC-5.

(E) Schedule ACC-25.

Schedule ACC-2

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

REQUIRED COST OF CAPITAL

	Capital Structure	Cost Rate		Weighted Cost
	(A)			
1. Common Equity	51.24%	8.50%	(B)	4.36%
2. Long Term Debt	48.76%	6.23%	(A)	3.04%
3. Total Cost of Capital	100.00%			<u>7.39%</u>

Sources:

(A) Company Filing, Section 7,

(B) Testimony of Dr. Woolridge, Exhibit JRW-1.

ATMOS ENERGY CORPORATION**TEST YEAR ENDED SEPTEMBER 30, 2013****RATE BASE SUMMARY**

	Company Claim (A)	Recommended Adjustment		Recommended Position
1. Utility Plant in Service	\$299,968,495	\$0		\$299,968,495
Less:				
2. Accumulated Depreciation	<u>(98,883,233)</u>	0		<u>(98,883,233)</u>
3. Net Utility Plant	\$201,085,262	\$0		\$201,085,262
Plus:				
4. Construction Work In Progress	\$13,225,467	(\$10,704,059)	(B)	\$2,521,408
5. Prepayments	841,729	0		841,729
6. Gas in Storage	8,958,803	0		8,958,803
7. Cash Working Capital	0	0		0
Less:				
8. Customer Advances	(\$1,065,228)	\$0		(\$1,065,228)
9. Customer Deposits	(2,033,106)	0		(2,033,106)
10. Acc. Deferred Income Taxes	<u>(36,813,697)</u>	0		<u>(36,813,697)</u>
11. Total Rate Base	<u>\$184,199,230</u>	<u>(\$10,704,059)</u>		<u>\$173,495,171</u>

Sources:

(A) Company Filing, Section 3.

(B) Schedule ACC-4.

Schedule ACC-4

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

CONSTRUCTION WORK IN PROGRESS

1. CWIP at 9/30/13	\$2,521,408	(A)
2. Company Claim	<u>13,225,467</u>	(A)
3. Recommended Adjustment	<u>(\$10,704,059)</u>	

Sources:

(A) Company Filing, WP 14-1, RB-1.

Schedule ACC-5

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

OPERATING INCOME SUMMARY

		Schedule No.
1. Company Claim	\$11,325,962	1
Recommended Adjustments:		
2. Pro Forma Revenue	\$135,584	6
3. Forfeited Discounts	20,850	7
4. Incentive Compensation Expense	590,446	8
5. Payroll Tax Expense	29,552	9
6. Payroll Tax Expense	11,060	10
7. Employee Benefits Expense	54,858	11
8. Pension Deferral	26,113	12
9. SERP Expense	296,275	13
10. Bad Debt Expense	264,080	14
11. Injuries and Damages	118,754	15
12. Regulatory Commission Expense	60,678	16
13. Regulatory Commission Expense	37,645	17
14. Advertising Expense	21,281	18
15. Membership Dues Expense	2,617	19
16. Meals and Entertainment	92,998	20
17. Relocation Expense	16,630	21
18. Property Tax Expense	155,942	22
19. Interest Synchronization	(128,602)	23
20. Operating Income	<u>\$13,132,722</u>	

Schedule ACC-6

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

PRO FORMA REVENUE

	<u>Residential Revenue</u>	
1. Pro Forma Residential Revenue Per Compa	\$37,714,157	(A)
2. Test Year Growth Rate	1.19%	(B)
3. 50% of Test Year Growth Rate (L.2 / 2)	<u>0.60%</u>	(C)
4. Pro Forma Revenue Adjustment	\$225,045	
5. Bad Debt Expense	0.34% <u>755</u>	(D)
6. Net Revenue Adjustment	\$224,291	
7. Income Taxes @	39.55% <u>88,707</u>	
8. Operating Income Impact	<u>\$135,584</u>	

Sources:

- (A) Company Filing, Section 17.
- (B) Reflects growth from fiscal year 2012 to fiscal year 2013, per Company Filing, Section 8E and 8F.
- (C) Line 2 / 2. Doesn't add due to rounding.
- (D) Uncollectible rate per Schedule ACC-14.

Schedule ACC-7

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

PRO FORMA REVENUE - FORFEITED DISCOUNTS

1. Fiscal Year 2012 Revenues	\$264,248	(A)
2. Fiscal Year 2013 Revenues	<u>229,641</u>	(A)
3. Recommended Adjustment	\$34,607	
4. Bad Debt Expense	<u>116</u>	(B)
5. Net Revenue Adjustment	\$34,491	
6. Income Taxes @ 39.55%	<u>13,641</u>	
7. Operating Income Impact	<u>\$20,850</u>	

Sources:

(A) Response to CURB - 8.

(B) Uncollectible Rate per Schedule ACC-14

ATMOS ENERGY CORPORATION**TEST YEAR ENDED SEPTEMBER 30, 2013****INCENTIVE COMPENSATION EXPENSE**

1. Test Year VPP/MIP Expenses		\$639,035	(A)
2. Test Year Restricted Stock Expense (LTIP)		<u>337,716</u>	(B)
3. Total Recommended Adjustment		\$976,751	
4. Income Taxes @	39.55%	<u>386,305</u>	
5. Operating Income Impact		<u>\$590,446</u>	

Sources:

(A) Response to KCC-129.

(B) Response to KCC-131.

Schedule ACC-9

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

PAYROLL TAX EXPENSE-RATE

1. Kansas Labor Expense Claim	\$5,227,259	(A)
2. Statutory Tax Rate	<u>7.65%</u>	(B)
3. Pro Forma Income Tax Adjustment	\$399,885	
4. Company Claim	<u>418,181</u>	(A)
5. Recommended Adjustment	\$18,296	
6. Income Tax 39.55%	<u>7,236</u>	
7. Operating Income	<u>\$11,060</u>	

Sources:

(A) Company Filing, Section 11, WP 11-5, IS-10.

(B) Based on Statutory Tax Rate.

Schedule ACC-10

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

PAYROLL TAX EXPENSE - INCENTIVE COMPENSATION

1. Incentive Compensation Adjustment	\$639,035	(A)
2. Statutory Tax Rate	<u>7.65%</u>	(B)
3. Total Recommended Adjustment	\$48,886	
4. Income Taxes @ 39.55%	<u>19,334</u>	
5. Operating Income	<u>\$29,552</u>	

Sources:

(A) Schedule ACC-8.

(B) Based on Statutory Tax Rate.

Schedule ACC-11

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

EMPLOYEE BENEFITS EXPENSE

1. Total Benefits Expense Adjustment		\$90,749	(A)
2. Income Taxes @	39.55%	<u>35,891</u>	
3. Operating Income Impact		<u>\$54,858</u>	

Sources:

(A) Company Filing, Section 9, WP 9-3, IS-2.

Schedule ACC-12

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

PENSION DEFERRAL

1. Pension Deferral at 9/31/14	\$194,597	(A)
2. OBEP Deferral at 9/31/14	<u>129,387</u>	(A)
3. Total Deferral at 9/30/14	\$323,984	
4. Proposed Amortization Period	<u>5</u>	(B)
5. Annual Amortization	\$64,797	
6. Company Claim	<u>107,995</u>	(A)
7. Recommended Adjustment	\$43,198	
8. Income Taxes @ 39.55%	<u>17,085</u>	
9. Operating Income Impact	<u>\$26,113</u>	

Sources:

(A) Company Filing, Section 9, WP 9-9-1 and 9-9-2, IS-15.

(B) Recommendation of Ms. Crane.

Schedule ACC-13

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

SUPPLEMENTAL EXECUTIVE RETIREMENT PROGRAM EXPENSE

1. Division 02 Expense	\$4,130,039	(A)
2. Allocation to Kansas	<u>4.19%</u>	(B)
3. Amount Allocated to Kansas	\$173,049	
4. Division 30 Expense	\$537,492	(A)
5. Allocation to Kansas	<u>58.99%</u>	(B)
6. Amount Allocated to Kansas	<u>317,067</u>	
7. Pro Forma Expense Adjustment	\$490,115	
8. Income Taxes @	39.55%	<u>193,841</u>
9. Operating Income Impact		<u>\$296,275</u>

Sources:

(A) Response to CURB-37.

(B) Based on allocations per Company Filing, WP 9-2, IS-1.

ATMOS ENERGY CORPORATION**TEST YEAR ENDED SEPTEMBER 30, 2013****UNCOLLECTIBLE EXPENSE**

1. Test Year Revenue	\$117,242,266	(A)
2. Three Year Average	<u>0.34%</u>	(B)
3. Pro Forma Interest Expense	\$393,123	
4. Company Claim	<u>829,979</u>	(A)
5. Recommended Adjustment	\$436,856	
6. Income Taxes @ 39.55%	172,777	
7. Operating Income Impact	<u>\$264,080</u>	

Sources:

(A) Response to CURB-57.

(B) Three year average of net writeoffs to revenue per the response to CURB-57.

Schedule ACC-15

ATMOS ENERGY CORPORATION

INJURIES AND DAMAGES EXPENSES

TEST YEAR ENDING SEPTEMBER 30, 2013

1. Five Year Average	\$108,687	(A)
2. Company Claim	<u>305,137</u>	(A)
3. Recommended Adjustment	\$196,450	
4. Income Taxes @ 39.55%	<u>77,696</u>	
5. Operating Income Impact	<u>\$118,754</u>	

Sources:

(A) Company Filing, Section 8 D, Item (iii).

ATMOS ENERGY CORPORATION

TEST YEAR ENDING SEPTEMBER 30, 2013

REGULATORY COMMISSION EXPENSE

1. Original Company Adjustment	\$160,376	(A)
2. Revised Company Adjustment	<u>98,101</u>	(B)
3. Recommended Adjustment	\$62,275	
4. Income Taxes @ 39.55%	<u>24,630</u>	
5. Operating Income Impact	<u>\$37,645</u>	

Sources:

(A) Company Filing, Section 9, WP 9-6, IS-5.

(B) Response to KCC-89 (Supplement 1).

Schedule ACC-17

ATMOS ENERGY CORPORATION

TEST YEAR ENDING SEPTEMBER 30, 2013

REGULATORY COMMISSION EXPENSE AMORTIZATION

1. Company Claim		\$602,265	(A)
2. Recommended Amortization Period		<u>3</u>	(B)
3. Recommended Annual Expense		\$200,755	
4. Company Claim		<u>301,132</u>	(A)
5. Recommended Adjustment		\$100,377	
6. Income Taxes @	39.55%	<u>39,699</u>	
7. Operating Income Impact		<u>\$60,678</u>	

Sources:

(A) Response to KCC-89 (Supplement 1).

(B) Recommendation of Ms. Crane.

ATMOS ENERGY CORPORATION**TEST YEAR ENDED SEPTEMBER 30, 2013****ADVERTISING EXPENSE**

1. Division 2 Promotional Advertising	\$94,826	(A)
2. Allocation to Kansas (%)	<u>4.19%</u>	(B)
3. Allocation to Kansas (\$)	\$3,973	
4. Division 30 Promotional Advertising	\$5,552	(A)
5. Allocation to Kansas (%)	<u>58.99%</u>	(B)
6. Allocation to Kansas (\$)	\$3,275	
7. Direct Promotional Advertising	<u>\$27,956</u>	(A)
8. Total Recommended Adjustment	\$35,204	
9. Income Taxes @	39.55%	<u>13,923</u>
10. Operating Income Impact	<u>\$21,281</u>	

Sources:

(A) Response to KCC-52.

(B) Allocations per the Company's Filing, Section 9, WP9-5, IS-4.

ATMOS ENERGY CORPORATION**TEST YEAR ENDED SEPTEMBER 30, 2013****MEMBERSHIP DUES EXPENSES**

1. Division 30 Adjustment	\$1,442	(A)
2. Allocation to Kansas (%)	<u>58.99%</u>	(B)
3. Allocation to Kansas (\$)	\$851	
4. Direct Cost Adjustment	<u>\$28,015</u>	(A)
5. Total Kansas Allocation	\$28,866	
6. Recommended Adjustment (%)	<u>15.00%</u>	(C)
7. Recommended Adjustment (\$)	\$4,330	
8. Income Taxes @	39.55%	
	<u>1,712</u>	(B)
9. Operating Income Impact	<u>\$2,617</u>	

Sources:

(A) Response to KCC-62.

(B) Allocations per the Company's Filing, Section 9, WP9-5, IS-4.

(C) Recommendation of Ms. Crane.

ATMOS ENERGY CORPORATION**TEST YEAR ENDED SEPTEMBER 30, 2013****MEALS AND ENTERTAINMENT EXPENSE**

1. Division 2 Meals/Entertainment Expenses	\$569,992	(A)
2. Allocation to Kansas (%)	<u>4.19%</u>	(B)
3. Allocation to Kansas (\$)	\$23,883	
4. Division 12 Meals/Entertainment Expenses	\$373,472	(A)
5. Allocation to Kansas (%)	<u>4.27%</u>	(B)
6. Allocation to Kansas (\$)	\$15,947	
7. Division 30 Promotional Advertising	\$78,118	(A)
8. Allocation to Kansas (%)	<u>58.99%</u>	(B)
9. Allocation to Kansas (\$)	\$46,082	
10. Direct Meals/Entertainment Expenses	<u>\$83,879</u>	(A)
11. Total Recommended Adjustment	\$153,843	
12. Income Taxes @	39.55%	<u>60,845</u>
13. Operating Income Impact	<u>\$92,998</u>	

Sources:

(A) Response to CURB-72 (Supplement 5-15-14).

(B) Allocations per the Company's Filing, Section 9, WP 9-2, IS-1.

Schedule ACC-21

ATMOS ENERGY CORPORATION

TEST YEAR ENDING SEPTEMBER 31, 2013

RELOCATION COSTS

1. Three Year Average	\$75,410	(A)
2. Company Claim	<u>102,921</u>	(A)
3. Recommended Adjustment	\$27,511	
4. Income Taxes @ 39.55%	<u>10,881</u>	
5. Operating Income Impact	<u>\$16,630</u>	

Sources:

(A) Derived from the response to CURB-30.

Schedule ACC-22

ATMOS ENERGY CORPORATION

TEST YEAR ENDING SEPTEMBER 30, 2013

PROPERTY TAX EXPENSE

1. Recommended CWIP Adjustment	\$10,704,059	(A)
2. Ad Valorem Tax Rate	<u>2.41%</u>	(B)
3. Recommended Adjustment (\$)	\$257,968	
4. Income Taxes @	39.55% <u>102,026</u>	
5. Operating Income Impact	<u>\$155,942</u>	

Sources:

(A) Schedule ACC-4.

(B) Company Filing, Section 11, WP 11-4, IS-9.

Schedule ACC-23

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

INTEREST SYNCHRONIZATION

1. Pro Forma Rate Base	\$173,495,171	(A)
2. Weighted Cost of Debt	<u>3.04%</u>	(B)
3. Pro Forma Interest Expense	\$5,270,346	
4. Company Claim	<u>5,595,508</u>	(C)
5. Adjustment to Interest Expense	(\$325,162)	
6. Income Taxes @	39.55%	<u>(\$128,602)</u>

Sources:

(A) Schedule ACC-1.

(B) Weighted cost of long-term debt per Schedule ACC-2.

(C) Company Filing, Section 11 WP11, B-1.

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

INCOME TAX FACTOR

1. Revenue	100.00%	
2. State Income Tax Rate	<u>7.00%</u>	(A)
3. Federal Taxable Income	93.00%	
4. Income Taxes @ 35%	<u>32.55%</u>	(A)
5. Operating Income	60.45%	
6. Total Tax Rate	<u>39.55%</u>	(B)

Sources:

(A) Rates per Company Filing, Section 11B, IS-12.

(B) Line 2 + Line 4.

Schedule ACC-25

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

REVENUE MULTIPLIER

1. Revenue	100.00%	
2. Uncollectible Rate	<u>0.34%</u>	(A)
3. Taxable Income	99.66%	
4. State Income Tax @ 7.0%	<u>6.98%</u>	(B)
5. Federal Taxable Income	92.69%	
6. Income Taxes @ 35%	<u>32.44%</u>	(B)
7. Operating Income	60.25%	
8. Revenue Multiplier	<u><u>1.659825</u></u>	(C)

Sources:

(A) Rate per Schedule ACC-14.

(B) Rates per Company Filing, Section 11B, IS-12.

(C) Line 1 / Line 7.

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

REVENUE REQUIREMENT IMPACT OF ADJUSTMENTS

1. Rate of Return	(\$3,200,630)
Rate Base Adjustments:	
2. CWIP	(1,313,531)
Operating Income Adjustments	
3. Pro Forma Revenue	(225,045)
4. Forfeited Discounts	(34,607)
5. Incentive Compensation Expense	(980,037)
6. Payroll Tax Expense	(49,051)
7. Payroll Tax Expense	(18,357)
8. Employee Benefits Expense	(91,054)
9. Pension Deferral	(43,344)
10. SERP Expense	(491,764)
11. Bad Debt Expense	(438,326)
12. Injuries and Damages	(197,111)
13. Regulatory Commission Expense	(100,715)
14. Regulatory Commission Expense	(62,485)
15. Advertising Expense	(35,323)
16. Membership Dues Expense	(4,344)
17. Meals and Entertainment	(154,361)
18. Relocation Expense	(27,604)
19. Property Tax Expense	(258,836)
20. Interest Synchronization	213,456
21. Total Recommended Adjustments	(\$7,513,068)
22. Company Claim	7,005,215
23. Recommended Revenue Requirement	<u>(\$507,853)</u>

Schedule ACC-27

ATMOS ENERGY CORPORATION

TEST YEAR ENDED SEPTEMBER 30, 2013

PRO FORMA INCOME STATEMENT

	Per Company	Recommended Adjustments	Pro Forma Present Rates	Recommended Rate Adjustment	Pro Forma Proposed Rates
1. Operating Revenues	\$53,790,823	\$259,652	\$54,050,475	(\$507,853)	\$53,542,623
2. Operating Expenses	20,992,361	(2,683,971)	18,308,390	(1,703)	18,306,687
3. Depreciation and Amortization	9,622,905	0	9,622,905	0	9,622,905
4. Taxes Other Than Income	8,123,718	(257,968)	7,865,750	0	7,865,750
5. Taxable Income Before Interest Expenses	\$15,051,839	\$3,201,592	\$18,253,431	(\$506,150)	\$17,747,281
6. Interest Expense	5,598,151	(325,162)	5,272,989		5,272,989
7. Taxable Income	\$9,453,688	\$3,526,753	\$12,980,441	(\$506,150)	\$12,474,292
8. Income Taxes @ 39.55%	3,725,877	1,394,831	5,120,708	(200,182)	4,920,526
9. Operating Income	\$11,325,962	\$1,806,761	\$13,132,722	(\$305,967)	\$12,826,755
10. Rate Base	\$184,199,230		\$173,495,171		\$173,495,171
11. Rate of Return	<u>6.15%</u>		<u>7.57%</u>		<u>7.39%</u>

APPENDIX C

Referenced Data Requests:

CURB - 8
CURB - 30
CURB - 35 (Partial)
CURB - 37
CURB - 52
CURB - 57
CURB - 59
CURB - 72 (Supplement 5-15-14)
CURB - 73

KCC - 52
KCC - 62
KCC - 65
KCC - 89 (Supplement 1) (Partial)
KCC - 117
KCC - 129*
KCC - 131

* Confidential Data Not Included

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
CURB DR Set No. 1
Question No. 1-008
Page 3 of 84

REQUEST:

Please provide a 5-year history for each category of miscellaneous revenue.

RESPONSE:

Please see Attachment 1.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, CURB_1-008_Att1 - Misc Revenue
FY09-FY13.xlsx, 1 Page.

Respondent: Jason Schneider

Atmos Energy Corporation, KS
 Misc. Revenue
 For Fiscal Years 2009 thru 2013

Division	Division Name	Account	Account Description	FY13	FY12	FY11	FY10	FY09
081	KS Division - 081DIV	4870	Forfeited discounts	218,652	245,548	316,800	357,782	467,548
081	KS Division - 081DIV	4880	Miscellaneous service revenues	309,020	91,484	88,117	100,701	150,089
081	KS Division - 081DIV	4950	Other gas revenues	1,131,966	548,668	590,070	291,531	898,065
				<u>1,659,638</u>	<u>885,700</u>	<u>994,986</u>	<u>750,015</u>	<u>1,515,702</u>
086	Southwest Kansas Division - 086DIV	4870	Forfeited discounts	10,989	18,700	29,995	16,362	14,085
086	Southwest Kansas Division - 086DIV	4880	Miscellaneous service revenues	9,575	3,134	4,516	3,561	3,255
086	Southwest Kansas Division - 086DIV	4950	Other gas revenues	71,630	102,089	70,639	31,022	79,532
				<u>92,194</u>	<u>123,922</u>	<u>105,150</u>	<u>50,945</u>	<u>96,871</u>

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
CURB DR Set No. 1
Question No. 1-030
Page 25 of 84

REQUEST:

Provide the total relocation expenses in each of the last three years and as reflected in the filing.

RESPONSE:

Please see Attachment 1.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, CURB_1-030_Att1 - Relocation Expenses.xlsx, 1 Page.

Respondents: Joe Christian and Jason Schneider

Atmos Energy Corporation; SSU and KS
Relocation Expenses
For Fiscal Years 2011 thru 2013

**Note - These dollars are per the General Ledger System and are before any allocations
SSU and division 30 allocates a portion of cost to Kansas division**

Company	Division	Division Name	FY11	FY12	FY13
010	002	Dallas Atmos Rate Division - 002DIV	518,094	295,131	419,821
010	012	Call Center Division - 012DIV	109,881	77,205	191,383
060	030	GGC/Denver Company Division - 030DIV	20,691	14,234	130,800
060	081	KS Division - 081DIV	20,215	-	-

These amounts were pulled from Cost Center 1901 - SS Dallas Employee Relocation Expense and
Cost Center 3021 - CO/KS Div Relocation Expense.

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
CURB DR Set No. 1
Question No. 1-035
Page 1 of 1

REQUEST:

Provide a copy of each incentive plan in effect.

RESPONSE:

Please see Attachment 1 through Attachment 6 for copies of the incentive compensation plans.

ATTACHMENTS:

ATTACHMENT 1 - Atmos Energy Corporation, CURB_1-035_Att1 - Variable Pay Plan (VPP).pdf, 6 Pages.

ATTACHMENT 2 - Atmos Energy Corporation, CURB_1-035_Att2 - Management Incentive Plan (MIP).pdf, 10 Pages.

ATTACHMENT 3 - Atmos Energy Corporation, CURB_1-035_Att3 - Amendment No. 1 to MIP.pdf, 2 Pages.

ATTACHMENT 4 - Atmos Energy Corporation, CURB_1-035_Att4 - Amendment No. 2 to MIP.pdf, 1 Page.

ATTACHMENT 5 - Atmos Energy Corporation, CURB_1-035_Att5 - Long-Term Incentive Plan (LTIP).pdf 24 Pages.

ATTACHMENT 6 - Atmos Energy Corporation, CURB_1-035_Att6 - Customer Contact Center Incentive Program.pdf, 2 Pages.

Respondent: Bart Armstrong

ATMOS ENERGY CORPORATION
VARIABLE PAY PLAN FOR EMPLOYEES

The Atmos Energy Corporation Variable Pay Plan for Employees (hereinafter called the "Plan") was adopted by Atmos Energy Corporation, a Texas and Virginia corporation (hereinafter called the "Company"), to be effective October 1, 1998.

ARTICLE 1

PURPOSE

The Plan is intended to provide the Company a means by which it can engender and sustain a sense of personal commitment on the part of its Employees in the continued growth, development, and financial success of the Company. It is intended to encourage them to remain with and devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its shareholders. Accordingly, the Company may award to Employees incentive compensation on the terms and conditions established herein.

ARTICLE 2

DEFINITIONS

For the purposes of the Plan, unless the context requires otherwise, the following terms shall have the meanings indicated:

2.1 "Incentive Award" or "Award" means the compensation payable under this Plan, in cash to a Participant by the Committee pursuant to such terms, conditions, restrictions, and limitations established by the Committee and Plan.

2.2 "Board" means the Board of Directors of the Company.

2.3 "Code" means the Internal Revenue Code of 1986, as amended, together with the published rulings, regulations, and interpretations duly promulgated thereunder.

2.4 "Committee" means the Management Committee of the Company or other committee appointed or designated by the Board to administer the Plan in accordance with Article 3 of this Plan.

2.5 "Company" means Atmos Energy Corporation, a Texas and Virginia corporation, and any successor entity.

2.6 "Eligible Earnings" means the total of all amounts paid to an Employee for personal services as reported on the Employee's Federal Income Tax Withholding Statement (Form W-2) but excluding (i) expense reimbursements, (ii) bonuses/incentive compensation, (iii) any contributions under any deferred compensation or welfare benefit Plan, and (iv) other special payments of any kind.

2.7 "Employee" means common law employee (as defined in accordance with the Regulations and Revenue Rulings then applicable under Section 3401(c) of the Code) of the Company and any Subsidiary of the Company.

2.8 "Participant" means an Employee who meets the criteria to participate in the Plan.

2.9 "Performance Criteria" or "Performance Goals" or "Performance Measures" mean the objectives established by the Committee for the Performance Period pursuant to Article 5 hereof, for the purpose of determining Awards under the Plan.

2.10 "Performance Period" means the consecutive twelve-month period that constitutes the Company's fiscal year.

2.11 "Plan" means the Atmos Energy Corporation Variable Pay Plan for Employees, dated October 1, 1998, as amended from time to time.

2.12 "Regular Employment Status" means employment for an unspecified period of time on a work schedule of either: (1) at least forty hours per week or at least 2,080 hours per year, and paid at a monthly rate, or (2) less than forty hours per week or less than 2,080 hours per year, and paid at an hourly rate.

2.13 "Subsidiary" means (i) any corporation in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain, (ii) any limited partnership, if the Company or any corporation described in item (i) above owns a majority of the general partnership interest and a majority of the limited partnership interests entitled to vote on the removal and replacement of the general partner, and (iii) any partnership or limited liability Company, if the partners or members thereof are composed only of the Company, any corporation listed in item (i) above or any limited partnership listed in item (ii) above. "Subsidiaries" means more than one of any such corporations, limited partnerships, partnerships or limited liability companies.

2.14 "Termination of Service" occurs when a Participant who is an Employee of the Company or any Subsidiary shall cease to serve as an Employee of the Company and its Subsidiaries, for any reason.

ARTICLE 3

ADMINISTRATION

The Plan shall be administered by the Committee as designated in accordance with Section 2.4 above.

The Committee, in its discretion, shall (i) interpret the Plan, (ii) prescribe, amend, and rescind any rules and regulations necessary or appropriate for the administration of the Plan, and (iii) make such other determinations and take such other action as it deems necessary or advisable in the administration of the Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties.

ARTICLE 4

ELIGIBILITY

Any Employee who meets the following criteria is eligible to participate in the Plan. Employees who are considered to be in Regular Employment Status, and who are not participants in the Company's Annual Incentive Plan for Management are eligible to participate in the Plan. Additionally, Employees covered by a collective bargaining agreement between the Company and a bargaining agent will become Participants in the Plan provided such Plan participation is negotiated and agreed upon in good faith between the Company and such bargaining agent.

ARTICLE 5

PERFORMANCE GOALS AND MEASUREMENT

5.1 Performance Goals Establishment. Performance Goals shall be established by the Committee not later than 90 days after commencement of the Performance Period. The Performance Goals may be identical for all Participants or, at the discretion of the Committee, may be different to reflect more appropriate measures of performance.

5.2 Performance Goals. Performance Goals relating to Participants for a Performance Period shall be established by the Committee in writing. Performance Goals may include alternative and multiple Performance Goals and may be based on one or more business and/or financial criteria. In establishing the Performance Goals for the Plan Year, the Committee in its discretion may include one or any combination of the following criteria in either absolute or relative terms, for either the Company or any of its Subsidiary organizations:

- (a) Total shareholder return
- (b) Return on assets, equity, capital, or investment
- (c) Pre-tax or after-tax profit levels, including: earnings per share; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; net operating profits after tax, and net income
- (d) Cash flow and cash flow return on investment
- (e) Economic value added and economic profit
- (f) Growth in earnings per share
- (g) Levels of operating expense or other expense items as reported on the income statement, including operating and maintenance expense and capital expense
- (h) Measures of customer satisfaction and customer service as surveyed from time to time, including the relative improvement therein.

5.3. Adjustments for Extraordinary Items. The Committee shall be authorized to make adjustments in the method of calculating attainment of Performance Goals in recognition of: (i) extraordinary or non-recurring items, (ii) changes in tax laws, (iii) changes in generally accepted accounting principles or changes in accounting policies, (iv) charges related to restructured or discontinued operations, (v) restatement of prior period financial results, and (vi) any other unusual, non-recurring gain or loss that is separately identified and quantified in the Company's financial statements. Notwithstanding the foregoing, the Committee may, in its sole discretion, reduce the performance results upon which Awards are based under the Plan, to offset

any unintended result(s) arising from events not anticipated when the Performance Goals were established.

5.4 Determination of Awards. Awards shall be made annually in accordance with actual performance compared to the Performance Goals previously established by the Committee for the Performance Period. The award and payment of any Award under this Plan to a Participant with respect to the Performance Period shall be contingent upon the attainment of the Performance Goals that are applicable to such Participant. The Committee shall certify in writing prior to payment of any such Award that such applicable Performance Goals relating to the Award are satisfied. Approved minutes of the Committee may be used for this purpose.

The Committee, upon its own action, may make, but shall not be required to make, an Award to any Participant. Awards may be made by the Committee at any time and from time to time to new Participants, or to then Participants, or to a greater or lesser number of Participants, and may include or exclude previous Participants, as the Committee shall determine. The Committee's determinations under the Plan (including, without limitation, determinations of which Participants, if any, are to receive Awards, the amount of such Awards, and the terms and provisions of such Awards) may be made by the Committee selectively among Participants. An Employee must be a Participant in the Plan for a minimum of six months during the Plan Year to be eligible for an Award for that Plan Year.

ARTICLE 6

AWARDS

6.1 Timing of Awards. Within 60 days following the completion of the Performance Period, the Committee shall review the prior year's performance in relation to the Performance Goals and shall determine the Awards to be made to Participants.

6.2 Form and Payment of Awards. Awards shall be paid in cash as soon as administratively possible following the determination of those Awards.

ARTICLE 7

WITHHOLDING TAXES

The Company shall have the right to deduct from any payment to be made pursuant to the Plan the amount of any taxes required by law to be withheld with respect to such payments.

ARTICLE 8

NO RIGHT TO CONTINUED EMPLOYMENT OR AWARDS

No Employee shall have any claim or right to be made an Award, and the making of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any of its Subsidiaries. Further, the Company and its Subsidiaries expressly reserve the right at any time to terminate the employment of any Participant free from any liability under the Plan.

ARTICLE 9

AMENDMENT, MODIFICATION, SUSPENSION, OR TERMINATION

Subject to the limitations set forth in the Article 9, the Board may at any time and from time to time, without the consent of the Participants, alter, amend, revise, suspend, or discontinue the Plan in whole or in part.

ARTICLE 10

GOVERNING LAW

The validity, construction and effect of the Plan and any actions taken or relating to the Plan shall be determined in accordance with the laws of the State of Texas and applicable Federal law.

ARTICLE 11

SUCCESSORS AND ASSIGNS

The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly to assume and agree to perform the Company's obligation under this Plan in the same manner and to the same extent that the Company would be required to perform them if no such succession had taken place. As used herein, the "Company" shall mean the Company as hereinbefore defined and any aforesaid successor to its business and/or assets.

ARTICLE 12

EFFECTIVE DATE

This Plan shall be effective as of October 1, 1998.

ARTICLE 13

INDEMNIFICATION

No member of the Board or the Committee, nor any officer or Employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Committee and each and any officer or Employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation.

* * * * *

IN WITNESS WHEREOF, the Company has caused this instrument to be executed effective as of October 1, 1998 by its President pursuant to prior action taken by the Board.

ATMOS ENERGY CORPORATION

By: Robert W. Best

Robert W. Best,
Chairman of the Board, President
and Chief Executive Officer

(GB)

Attest:

Glen A. Blansett

Secretary

ATMOS ENERGY CORPORATION
1998 LONG-TERM INCENTIVE PLAN
(as amended and restated February 10, 2011)

The Atmos Energy Corporation 1998 Long-Term Incentive Plan (hereinafter called the "Plan") was adopted by the Board of Directors of Atmos Energy Corporation, a Texas and Virginia corporation (hereinafter called the "Company") on August 12, 1998 to be effective October 1, 1998, and was approved by the Company's shareholders on February 10, 1999. An amendment to the Plan was approved by the Board of Directors on August 8, 2001, which amendment was approved by the Company's shareholders on February 13, 2002. The Plan was further amended by the Board of Directors on November 7, 2006, which amendment was approved by the Company's shareholders on February 7, 2007. The Plan was further amended by the Board of Directors on August 3, 2010, which amendment was approved by the Company's shareholders on February 9, 2011.

ARTICLE 1

PURPOSE

The purpose of the Plan is to attract and retain the services of able persons as employees of the Company and its Subsidiaries and as Non-employee Directors (as herein defined), to provide such persons with a proprietary interest in the Company through the granting of incentive stock options, non-qualified stock options, stock appreciation rights or restricted stock and to motivate employees and Non-employee Directors using performance-related incentives linked to longer-range performance goals and the interests of the Company's shareholders, whether granted singly, or in combination, or in tandem, that will

- (a) increase the interest of such persons in the Company's welfare;
- (b) furnish an incentive to such persons to continue their services for the Company; and
- (c) provide a means through which the Company may attract able persons as employees and Non-employee Directors.

With respect to Reporting Participants, the Plan and all transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 promulgated under the Securities Exchange Act of 1934 (the "1934 Act"). To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void *ab initio*, to the extent permitted by law and deemed advisable by the Committee. Further, any Awards granted under the Plan to a Non-employee Director shall be solely to compensate said Director for his services to the Company as a Non-employee Director.

ARTICLE 2

DEFINITIONS

For the purpose of the Plan, unless the context requires otherwise, the following terms shall have the meanings indicated:

2.1 "Award" means the grant of any Incentive Stock Option, Non-qualified Stock Option, SAR, Restricted Stock, Restricted Stock Unit, Performance Unit, Performance Share, Bonus Stock or other Stock Unit Award whether granted singly, in combination or in tandem (each individually referred to herein as an "Incentive"). "Award" also means any Incentive to which an award under the Management Incentive Plan is made or converted.

2.2 "Award Agreement" means a written agreement between a Participant and the Company, which sets out the terms of the grant of an Award.

2.3 "Award Period" means the period during which one or more Incentives granted under an Award may be exercised or earned.

2.4 "Board" means the Board of Directors of the Company.

2.5 "Bonus Stock" means an Award granted pursuant to Section 6.8 of the Plan expressed as a share of Common Stock which may or may not be subject to restrictions.

2.6 (a) "Change in Control" of the Company occurs upon a change in the Company's ownership, its effective control or the ownership of a substantial portion of its assets, as follows:

(i) Change in Ownership. A change in ownership of the Company occurs on the date that any "Person" (as defined in Section 2.6(b) below), other than (1) the Company or any of its subsidiaries, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (3) an underwriter temporarily holding stock pursuant to an offering of such stock, or (4) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of the Company's stock, acquires ownership of the Company's stock that, together with stock held by such Person, constitutes more than 50% of the total fair market value or total voting power of the Company's stock. However, if any Person is considered to own already more than 50% of the total fair market value or total voting power of the Company's stock, the acquisition of additional stock by the same Person is not considered to be a Change of Control. In addition, if any Person has effective control of the Company through ownership of 30% or more of the total voting power of the Company's stock, as discussed in paragraph (ii) below, the acquisition of additional control of the Company by the same Person is not considered to cause a Change in Control pursuant to this paragraph (i); or

(ii) Change in Effective Control. Even though the Company may not have undergone a change in ownership under paragraph (i) above, a change in the effective control of the Company occurs on either of the following dates:

(A) the date that any Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person) ownership of the Company's stock possessing 30 percent or more of the total voting power of the Company's stock. However, if any Person owns 30% or more of the total voting power of the Company's stock, the acquisition of additional control of the Company by the same Person is not considered to cause a Change in Control pursuant to this subparagraph (ii)(A); or

(B) the date during any 12-month period when a majority of members of the Board is replaced by directors whose appointment or election is not endorsed by a majority of the Board before the date of the appointment or election; provided, however, that any such director shall not be considered to be endorsed by the Board if his or her initial assumption of office occurs as a result of an actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Change in Ownership of Substantial Portion of Assets. A change in the ownership of a substantial portion of the Company's assets occurs on the date that a Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person) assets of the Company, that have a total gross fair market value equal to at least 40% of the total gross fair market value of all of the Company's assets immediately before such acquisition or acquisitions. However, there is no Change in Control when there is such a transfer to an entity that is controlled by the shareholders of the Company immediately after the transfer, through a transfer to (A) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock; (B) an entity, at least 50% of the total value or voting power of the stock of which is owned, directly or indirectly, by the Company; (C) a Person that owns directly or indirectly, at least 50% of the total value or voting power of the Company's outstanding stock; or (D) an entity, at least 50% of the total value or voting power of the stock of which is owned by a Person that owns, directly or indirectly, at least 50% of the total value or voting power of the Company's outstanding stock.

(b) For purposes of subparagraph (a) above,

(i) "Person" shall have the meaning given in Section 7701(a)(1) of the Internal Revenue Code of 1986, as amended (the "Code"). Person shall include more than one Person acting as a group as defined by the Final Treasury Regulations issued under Section 409A of the Code.

(ii) "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended.

(c) The provisions of this Section 2.6 shall be interpreted in accordance with the requirements of the Final Treasury Regulations under Code Section 409A, it being the intent of the parties that this Section 2.6 shall be in compliance with the requirements of said Code Section and said Regulations.

2.7 "Code" means the Internal Revenue Code of 1986, as amended, together with the published rulings, regulations, and interpretations duly promulgated thereunder.

2.8 "Committee" means the committee appointed or designated by the Board to administer the Plan in accordance with Article 3 of this Plan.

2.9 "Common Stock" means the common stock, with no par value (stated value of \$.005 per share), which the Company is currently authorized to issue or may in the future be authorized to issue.

2.10 "Company" means Atmos Energy Corporation, a Texas and Virginia corporation, and any successor entity.

2.11 "Covered Participant" means a Participant who is a "covered employee" as defined in Section 162(m)(3) of the Code, and the regulations promulgated thereunder, or who the Committee believes will be such a covered employee for a Performance Period, and who the Committee believes will have remuneration in excess of \$1,000,000 for the Performance Period, as provided in Section 162(m) of the Code.

2.12 "Date of Grant" means the effective date on which an Award is made to a Participant as set forth in the applicable Award Agreement; provided, however, that solely for purposes of Section 16 of the 1934 Act and the rules and regulations promulgated thereunder, the Date of Grant of an Award shall be the date of stockholder approval of the Plan if such date is later than the effective date of such Award as set forth in the Award Agreement.

2.13 "Employee" means common law employee (as defined in accordance with the Regulations and Revenue Rulings then applicable under Section 3401(c) of the Code) of the Company or any Subsidiary of the Company.

2.14 "Fair Market Value" of a share of Common Stock is the mean of the highest and lowest prices per share on the New York Stock Exchange Consolidated Tape, or such reporting service as the Board may select, on the appropriate date, or in the absence of reported sales on such day, the most recent previous day for which sales were reported.

2.15 "Incentive Stock Option" or "ISO" means an incentive stock option within the meaning of Section 422 of the Code, granted pursuant to this Plan.

2.16 "Management Incentive Plan" means the Atmos Energy Corporation Annual Incentive Plan for Management, as amended from time to time.

2.17 "Non-employee Director" means a member of the Board who is not an Employee and who satisfies the requirements of Rule 16b-3(b)(3) promulgated under the 1934 Act or any successor provision.

2.18 "Non-qualified Stock Option" or "NQSO" means a non-qualified stock option, granted pursuant to this Plan.

2.19 "Option Price" means the price which must be paid by a Participant upon exercise of a Stock Option to purchase a share of Common Stock.

2.20 "Participant" shall mean an Employee or Non-employee Director to whom an Award is granted under this Plan.

2.21 "Performance Award" means a performance-based Award, which may be in the form of either Performance Shares or Performance Units.

2.22 "Performance Criteria" or "Performance Goals" or "Performance Measures" mean the objectives established by the Committee for a Performance Period, for the purpose of determining when an Award subject to such objectives is earned.

2.23 "Performance Period" means the time period designated by the Committee during which performance goals must be met.

2.24 "Performance Share" means an Award, designated as a Performance Share, granted to a Participant pursuant to Section 6.7 hereof, the value of which is determined, in whole or in part, by the value of Common Stock in a manner deemed appropriate by the Committee and described in the Agreement.

2.25 "Performance Unit" means an Award, designated as a Performance Unit, granted to a Participant pursuant to Section 6.7 hereof, the value of which is determined, in whole or in part, by the attainment of pre-established goals relating to Company financial or operating performance as deemed appropriate by the Committee and described in the Award Agreement.

2.26 "Plan" means The Atmos Energy Corporation 1998 Long-Term Incentive Plan, as amended from time to time.

2.27 "Reporting Participant" means a Participant who is subject to the reporting requirements of Section 16 of the 1934 Act.

2.28 "Restricted Stock" means shares of Common Stock issued or transferred to a Participant pursuant to Section 6.4 of this Plan which are subject to restrictions or limitations set forth in this Plan and in the related Award Agreement.

2.29 "Restricted Stock Unit" means a fixed or variable dollar denominated right to acquire Common Stock, which may or may not be subject to restrictions, contingently awarded under Section 6.4 of the Plan.

2.30 "Retirement" means any Termination of Service solely due to retirement upon attainment of age 65, or permitted early retirement as determined by the Committee.

2.31 "SAR" means the right to receive a payment, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the SAR is exercised over the SAR Price for such shares.

2.32 "SAR Price" means the Fair Market Value of each share of Common Stock covered by an SAR, determined on the Date of Grant of the SAR.

2.33 "Stock Option" means a Non-qualified Stock Option or an Incentive Stock Option.

2.34 "Stock Unit Award" means awards of Common Stock or other awards pursuant to Section 6.9 hereof that are valued in whole or in part by reference to, or are otherwise based on, shares of Common Stock or other securities of the Company.

2.35 "Subsidiary" means (i) any corporation in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing a majority of the total combined voting power of all classes of stock in one of the other corporations in the chain, (ii) any limited partnership, if the Company or any corporation described in item (i) above owns a majority of the general partnership interest and a majority of the limited partnership interests entitled to vote on the removal and replacement of the general partner, and (iii) any partnership or limited liability company, if the partners or members thereof are composed only of the Company, any corporation listed in item (i) above or any limited partnership listed in item (ii) above. "Subsidiaries" means more than one of any such corporations, limited partnerships, partnerships or limited liability companies.

2.36 "Termination of Service" means with respect to each Participant who is an Employee or Non-employee Director a "separation from service" as defined in Section 1.409A-1(h) of the Final Treasury Regulations under Code Section 409A, or any successor provision thereto.

2.37 "Total and Permanent Disability" means the termination of a Participant's active employment with the Company on account of a medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, for which the employee is receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Company.

ARTICLE 3

ADMINISTRATION

The Plan shall be administered by the Human Resources Committee of the Board (the "Committee") unless otherwise determined by the Board. If said Human Resources Committee does not so serve, the Committee shall consist of not fewer than two persons; any member of the Committee may be removed at any time, with or without cause, by resolution of the Board; and any vacancy occurring in the membership of the Committee may be filled by appointment by the Board.

All actions to be taken by the Committee under this Plan, insofar as such actions affect compliance with Section 162(m) of the Code, shall be limited to those members of the Board who are Non-employee Directors and who are "outside directors" under Section 162(m). The Committee shall select one of its members to act as its Chairman. A majority of the Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee.

The Committee shall determine and designate from time to time the eligible persons to whom Awards will be granted and shall set forth in each related Award Agreement, the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance requirements, as are approved by the Committee, but not inconsistent with the Plan, including, but not limited to, any rights of the Committee to cancel or rescind any such Award. The Committee shall determine whether an Award shall include one type of Incentive, two or more Incentives granted in combination, or two or more Incentives granted in tandem (that is, a joint grant where exercise of one Incentive results in cancellation of all or a portion of the other Incentive).

The Committee, in its discretion, shall (i) interpret the Plan, (ii) prescribe, amend, and rescind any rules and regulations necessary or appropriate for the administration of the Plan, and (iii) make such other determinations and take such other action as it deems necessary or advisable in the administration of the Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties.

With respect to restrictions in the Plan that are based on the requirements of Rule 16b-3 promulgated under the 1934 Act, Section 422 of the Code, Section 162(m) of the Code, the rules of any exchange or inter-dealer quotation system upon which the Company's securities are listed or quoted, or any other applicable law, rule or restriction (collectively, "applicable law"), to the extent that any such restrictions are no longer required by applicable law, the Committee shall have the sole discretion and authority to grant Awards that are not subject to such mandated restrictions and/or to waive any such mandated restrictions with respect to outstanding Awards.

ARTICLE 4

ELIGIBILITY

Any Employee (including an Employee who is also a director or an officer) and any Non-employee Director is eligible to participate in the Plan. The Committee, upon its own action, may grant, but shall not be required to grant, an Award to any Employee or any Non-employee Director. Awards may be granted by the Committee at any time and from time to time to new Participants, or to then Participants, or to a greater or lesser number of Participants, and may include or exclude previous Participants, as the Committee shall determine. Except as required by this Plan, different Awards need not contain similar provisions. The Committee's determinations under the Plan (including without limitation determinations of which Employees or Non-employee Directors, if any, are to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among Employees and Non-employee Directors who receive, or are eligible to receive, Awards under the Plan.

ARTICLE 5

SHARES SUBJECT TO PLAN

Subject to adjustment as provided in Articles 14 and 15, the maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan is (a) 8,700,000 shares; plus (b) shares of Common Stock previously subject to Awards which are

forfeited, terminated, cancelled or rescinded, settled in cash in lieu of Common Stock, or exchanged for Awards that do not involve Common Stock, or expired unexercised.

Shares to be issued may be made available from authorized but unissued Common Stock, Common Stock held by the Company in its treasury, or Common Stock purchased by the Company on the open market or otherwise. During the term of this Plan, the Company will at all times reserve and keep available the number of shares of Common Stock that shall be sufficient to satisfy the requirements of this Plan.

ARTICLE 6

GRANT OF AWARDS

6.1 In General. The grant of an Award shall be authorized by the Committee and shall be evidenced by an Award Agreement setting forth the Incentive or Incentives being granted, the total number of shares of Common Stock subject to the Incentive(s), the Option Price (if applicable), the Award Period, the Date of Grant, and such other terms, provisions, limitations, and performance objectives, as are approved by the Committee, but not inconsistent with the Plan. The Company shall execute an Award Agreement with a Participant after the Committee approves the issuance of an Award. Any Award granted pursuant to this Plan must be granted within ten (10) years of the date of adoption of this Plan. The grant of an Award to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan.

If the Committee establishes a purchase price for an Award, the Participant must accept such Award within a period of 30 days (or such shorter period as the Committee may specify) after the Date of Grant by executing the applicable Award Agreement and paying such purchase price.

6.2 Maximum ISO Grants. The Committee may not grant Incentive Stock Options under the Plan to any Employee which would permit the aggregate Fair Market Value (determined on the Date of Grant) of the Common Stock with respect to which Incentive Stock Options (under this and any other plan of the Company and its Subsidiaries) are exercisable for the first time by such Employee during any calendar year to exceed \$100,000. To the extent any Stock Option granted under this Plan, which is designated as an Incentive Stock Option exceeds this limit or otherwise fails to qualify as an Incentive Stock Option, such Stock Option shall be a Non-qualified Stock Option. The Committee may not grant Incentive Stock Options to Non-employee Directors.

6.3 Maximum Individual Grants. No Participant may receive during any fiscal year of the Company Awards of Stock Options and SARs covering an aggregate of more than five hundred thousand (500,000) shares of Common Stock.

6.4 Restricted Stock/Restricted Stock Units. If Restricted Stock and/or Restricted Stock Units are granted to a Participant under an Award, the Committee shall set forth in the related Award Agreement: (i) the number of shares of Common Stock and/or the number of Restricted Stock Units awarded, (ii) the price, if any, to be paid by the Participant for such Restricted Stock and/or Restricted Stock Units, (iii) the time or times within which such Award may be subject to forfeiture, (iv) specified Performance Goals of the Company, a Subsidiary, any division thereof or any group of Employees of the Company, or other criteria, which the Committee determines must be met in order to remove any restrictions (including vesting) on

such Award, and (v) all other terms, limitations, restrictions, and conditions of the Restricted Stock and/or Restricted Stock Units, which shall be consistent with this Plan. The provisions of Restricted Stock and/or Restricted Stock Units need not be the same with respect to each Participant.

(a) Legend on Shares. Each Participant who is awarded Restricted Stock shall be issued a stock certificate or certificates in respect of such shares of Common Stock. Such certificate(s) shall be registered in the name of the Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, substantially as provided in Section 18.12 of the Plan. The Committee may require that the stock certificates evidencing shares of Restricted Stock be held in custody by the Company until the restrictions thereon shall have lapsed, and that the Participant deliver to the Committee a stock power or stock powers, endorsed in blank, relating to the shares of Restricted Stock.

(b) Restrictions and Conditions. Shares of Restricted Stock and Restricted Stock Units shall be subject to the following restrictions and conditions:

(i) Subject to the other provisions of this Plan and the terms of the particular Award Agreements, during such period as may be determined by the Committee commencing on the Date of Grant (the "Restriction Period"), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock and/or Restricted Stock Units. Except for these limitations, the Committee may in its sole discretion, remove any or all of the restrictions on such Restricted Stock and/or Restricted Stock Units whenever it may determine that, by reason of changes in applicable laws or other changes in circumstances arising after the date of the Award, such action is appropriate.

(ii) Except as provided in subparagraph (i) above, the Participant shall have, with respect to his or her Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon. Certificates for shares of Common Stock free of restriction under this Plan shall be delivered to the Participant promptly after, and only after, the Restriction Period shall expire without forfeiture in respect of such shares of Common Stock. Certificates for the shares of Common Stock forfeited under the provisions of the Plan and the applicable Award Agreement shall be promptly returned to the Company by the forfeiting Participant. Each Award Agreement shall require that (x) each Participant, by his or her acceptance of Restricted Stock, shall irrevocably grant to the Company a power of attorney to transfer any shares so forfeited to the Company and agrees to execute any documents requested by the Company in connection with such forfeiture and transfer, and (y) such provisions regarding returns and transfers of stock certificates with respect to forfeited shares of Common Stock shall be specifically performable by the Company in a court of equity or law.

(iii) The Restriction Period of Restricted Stock and/or Restricted Stock Units shall commence on the Date of Grant and, subject to Article 15 of the Plan, unless otherwise established by the Committee in the Award Agreement setting forth the terms of the Restricted Stock and/or Restricted Stock Units, shall expire upon satisfaction of the conditions set forth in the Award Agreement; such conditions may provide for vesting based on (i) length of continuous service, (ii) achievement of specific business objectives, (iii) increases in specified indices, (iv) attainment of specified growth rates, or (v) other comparable Performance Measurements, as may be determined by the Committee in its sole discretion.

(iv) Subject to the provisions of the particular Award Agreement, upon Termination of Service for any reason during the Restriction Period, the nonvested shares of Restricted Stock and/or Restricted Stock Units shall be forfeited by the Participant. In the event a Participant has paid any consideration to the Company for such forfeited Restricted Stock and/or Restricted Stock Units, the Company shall, as soon as practicable after the event causing forfeiture (but in any event within 5 business days), pay to the Participant, in cash, an amount equal to the total consideration paid by the Participant for such forfeited shares and/or units. Upon any forfeiture, all rights of a Participant with respect to the forfeited shares of the Restricted Stock shall cease and terminate, without any further obligation on the part of the Company.

6.5 SAR. An SAR shall entitle the Participant at his election to surrender to the Company the SAR, or portion thereof, as the Participant shall choose, and to receive from the Company in exchange therefor cash in an amount equal to the excess (if any) of the Fair Market Value (as of the date of the exercise of the SAR) per share over the SAR Price per share specified in such SAR, multiplied by the total number of shares of the SAR being surrendered. In the discretion of the Committee, the Company may satisfy its obligation upon exercise of an SAR by the distribution of that number of shares of Common Stock having an aggregate Fair Market Value (as of the date of the exercise of the SAR) equal to the amount of cash otherwise payable to the Participant, with a cash settlement to be made for any fractional share interests, or the Company may settle such obligation in part with shares of Common Stock and in part with cash.

6.6 Tandem Awards. The Committee may grant two or more Incentives in one Award in the form of a "tandem award," so that the right of the Participant to exercise one Incentive shall be canceled if, and to the extent, the other Incentive is exercised. For example, if a Stock Option and an SAR are issued in a tandem Award, and the Participant exercises the SAR with respect to 100 shares of Common Stock, the right of the Participant to exercise the related Stock Option shall be canceled to the extent of 100 shares of Common Stock.

6.7 Performance Based Awards.

(a) Grant of Performance Awards. The Committee may issue Performance Awards in the form of either Performance Units or Performance Shares to Participants subject to the Performance Goals and Performance Period as it shall determine. The terms and conditions of each Performance Award will be set forth in the related Award Agreement. The Committee shall have complete discretion in determining the number and value of Performance Units or Performance Shares granted to each Participant. Participants receiving Performance Awards are not required to pay the Company thereof (except for applicable tax withholding) other than the rendering of services.

(b) Value of Performance Awards. The Committee shall set performance goals in its discretion for each Participant who is granted a Performance Award. Such Performance Goals may be particular to a Participant, may relate to the performance of the Subsidiary which employs him or her, may be based on the division which employs him or her, may be based on the performance of the Company generally, or a combination of the foregoing. The Performance Goals may be based on achievement of balance sheet or income statement objectives, or any other objectives established by the Committee. The Performance Goals may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated. The extent to which such Performance Goals are met will determine the value of the Performance Unit or Performance Share to the Participant.

(c) Form of Payment. Payment of the amount to which a Participant shall be entitled upon the settlement of a Performance Award shall be made in a lump sum or installments in cash, shares of Common Stock, or a combination thereof as determined by the Committee.

6.8 Bonus Stock. The Committee may award shares of Bonus Stock to Participants under the Plan without cash consideration. The Committee shall determine and indicate in the related Award Agreement whether such shares of Bonus Stock awarded under the Plan shall be unencumbered of any restrictions (other than those advisable to comply with law) or shall be subject to restrictions and limitations similar to those referred to in Section 6.7 hereof. In the event the Committee assigns any restrictions on the shares of Bonus Stock awarded under the Plan, then such shares shall be subject to at least the following restrictions:

(a) No shares of Bonus Stock may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated if such shares are subject to restrictions which have not lapsed or have not been vested.

(b) If any condition of vesting of the shares of Bonus Stock are not met, all such shares subject to such vesting shall be delivered to the Company (in a manner determined by the Committee) within 60 days of the failure to meet such conditions without any payment from the Company.

6.9 Other Stock Based Awards.

(a) Grant of Other Stock Based Awards. The Committee may issue to Participants, either alone or in addition to other Awards made under the Plan, Stock Unit Awards which may be in the form of Common Stock or other securities. The value of each such Award shall be based, in whole or in part, on the value of the underlying Common Stock or other securities. The Committee, in its sole and complete discretion, may determine that an Award, either in the form of a Stock Unit Award under this Section 6.9 or as an Award granted pursuant to the other provisions of this Article 6, may provide to the Participant (i) dividends or dividend equivalents (payable on a current or deferred basis) and (ii) cash payments in lieu of or in addition to an Award. The Committee shall determine the terms, restrictions, conditions, vesting requirements, and payment rules (all of which are sometimes hereinafter collectively referred to as "rules") of the Award and shall set forth those rules in the related Award Agreement.

(b) Rules. The Committee, in its sole and complete discretion, may grant a Stock Unit Award subject to the following rules:

(i) Common Stock or other securities issued pursuant to Stock Unit Awards may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated by a Participant until the expiration of at least six months from the Award Date, except that such limitation shall not apply in the case of death or disability of the Participant. To the extent Stock Unit Awards are deemed to be derivative securities within the meaning of Rule 16b-3 under the 1934 Act, a Participant's rights with respect to such Awards shall not vest or be exercisable until the expiration of at least six months from the Award Date. To the extent a Stock Unit Award granted under the Plan is deemed to be a derivative security within the meaning of Rule 16b-3 under the 1934 Act, it may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, otherwise than by will or by laws of descent and distribution. All rights with respect to such Stock Unit Awards granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or his or her guardian or legal representative.

(ii) Stock Unit Awards may require the payment of cash consideration by the Participant in receipt of the Award or provide that the Award, and any Common Stock or other securities issued in conjunction with the Award be delivered without the payment of cash consideration.

(iii) The Committee, in its sole and complete discretion, may establish certain Performance Criteria that may relate in whole or in part to receipt of the Stock Unit Awards.

(iv) Stock Unit Awards may be subject to a deferred payment schedule and/or vesting over a specified employment period.

(v) The Committee as a result of certain circumstances, may waive or otherwise remove, in whole or in part, any restriction or condition imposed on a Stock Unit Award at the time of Award.

ARTICLE 7

OPTION PRICE; SAR PRICE

The Option Price for any share of Common Stock which may be purchased under a Stock Option and the SAR Price for any share of Common Stock subject to an SAR shall be at least One Hundred Percent (100%) of the Fair Market Value of the share on the Date of Grant. If an Incentive Stock Option is granted to an Employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any parent or Subsidiary), the Option Price shall be at least 110% of the Fair Market Value of the Common Stock on the Date of Grant.

ARTICLE 8

AWARD PERIOD; VESTING

8.1 Award Period. Subject to the other provisions of this Plan, the Committee may, in its discretion, provide that an Incentive may not be exercised in whole or in part for any period or periods of time or beyond any date specified in the Award Agreement. Except as provided in the Award Agreement, an Incentive may be exercised in whole or in part at any time during its term. The Award Period for an Incentive shall be reduced or terminated upon Termination of Service in accordance with this Article 8 and Article 9. No Incentive granted under the Plan may be exercised at any time after the end of its Award Period. No portion of any Incentive may be exercised after the expiration of ten (10) years from its Date of Grant. However, if an Employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any parent or Subsidiary) and an Incentive Stock Option is granted to such Employee, the term of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no more than five (5) years from the Date of Grant.

8.2 Vesting. The Committee, in its sole discretion, may determine that an Incentive will be immediately exercisable, in whole or in part, or that all or any portion may not be exercised until a date, or dates, subsequent to its Date of Grant, or until the occurrence of one or more specified events, subject in any case to the terms of the Plan. If the Committee imposes conditions upon exercise, then subsequent to the Date of Grant, the Committee may, in its sole discretion, accelerate the date on which all or any portion of the Incentive may be exercised.

ARTICLE 9

TERMINATION OF SERVICE

In the event of Termination of Service of a Participant, an Incentive may only be exercised as determined by the Committee and provided in the Award Agreement.

ARTICLE 10

EXERCISE OF INCENTIVE

10.1 In General. A vested Incentive may be exercised during its Award Period, subject to limitations and restrictions set forth therein and in Article 9. A vested Incentive may be exercised at such times and in such amounts as provided in this Plan and the applicable Award Agreement, subject to the terms, conditions, and restrictions of the Plan.

In no event may an Incentive be exercised or shares of Common Stock be issued pursuant to an Award if a necessary listing or quotation of the shares of Common Stock on a stock exchange or inter-dealer quotation system or any registration under state or federal securities laws required under the circumstances has not been accomplished. No Incentive may be exercised for a fractional share of Common Stock. The granting of an Incentive shall impose no obligation upon the Participant to exercise that Incentive.

(a) Stock Options. Subject to such administrative regulations as the Committee may from time to time adopt, a Stock Option may be exercised by the delivery of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the Stock Option is to be exercised and the date of exercise thereof (the "Exercise Date") which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. On the Exercise Date, the Participant shall deliver to the Company consideration with a value equal to the total Option Price of the shares to be purchased, payable as follows: (a) cash, check, bank draft, or money order payable to the order of the Company, (b) Common Stock (including Restricted Stock) owned by the Participant on the Exercise Date, valued at its Fair Market Value on the Exercise Date, (c) by delivery (including by FAX) to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the Participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the Stock Option or to pledge such shares as collateral for a loan and promptly deliver to the Company the amount of sale or loan proceeds necessary to pay such purchase price, and/or (d) in any other form of valid consideration that is acceptable to the Committee in its sole discretion. In the event that shares of Restricted Stock are tendered as consideration for the exercise of a Stock Option, a number of shares of Common Stock issued upon the exercise of the Stock Option equal to the number of shares of Restricted Stock used as consideration therefor shall be subject to the same restrictions and provisions as the Restricted Stock so submitted.

Upon payment of all amounts due from the Participant, the Company shall cause certificates for the Common Stock then being purchased to be delivered as directed by the Participant (or the person exercising the Participant's Stock Option in the event of his death) at its principal business office promptly after the Exercise Date; provided that if the Participant has exercised an Incentive Stock Option, the Company may at its option retain physical possession of the certificate evidencing the shares acquired upon exercise until the expiration of the holding periods described in Section 422(a)(1) of the Code. The obligation of the Company to deliver shares of Common Stock shall, however, be subject to the condition that if at any time the Committee shall

determine in its discretion that the listing, registration, or qualification of the Stock Option or the Common Stock upon any securities exchange or inter-dealer quotation system or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the Stock Option or the issuance or purchase of shares of Common Stock thereunder, the Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

If the Participant fails to pay for any of the Common Stock specified in such notice or fails to accept delivery thereof, the Participant's right to purchase such Common Stock may be terminated by the Company.

(b) SARs. Subject to the conditions of this Section 10.1(b) and such administrative regulations as the Committee may from time to time adopt, an SAR may be exercised by the delivery (including by FAX) of written notice to the Committee setting forth the number of shares of Common Stock with respect to which the SAR is to be exercised and the date of exercise thereof (the "Exercise Date") which shall be at least three (3) days after giving such notice unless an earlier time shall have been mutually agreed upon. On the Exercise Date, the Participant shall receive from the Company in exchange therefor cash in an amount equal to the excess (if any) of the Fair Market Value (as of the date of the exercise of the SAR) per share of Common Stock over the SAR Price per share specified in such SAR, multiplied by the total number of shares of Common Stock of the SAR being surrendered. In the discretion of the Committee, the Company may satisfy its obligation upon exercise of an SAR by the distribution of that number of shares of Common Stock having an aggregate Fair Market Value (as of the date of the exercise of the SAR) equal to the amount of cash otherwise payable to the Participant, with a cash settlement to be made for any fractional share interests, or the Company may settle such obligation in part with shares of Common Stock and in part with cash.

10.2 Disqualifying Disposition of ISO. If shares of Common Stock acquired upon exercise of an Incentive Stock Option are disposed of by a Participant prior to the expiration of either two (2) years from the Date of Grant of such Stock Option or one (1) year from the transfer of shares of Common Stock to the Participant pursuant to the exercise of such Stock Option, or in any other disqualifying disposition within the meaning of Section 422 of the Code, such Participant shall notify the Company in writing of the date and terms of such disposition. A disqualifying disposition by a Participant shall not affect the status of any other Stock Option granted under the Plan as an Incentive Stock Option within the meaning of Section 422 of the Code.

ARTICLE 11

SPECIAL PROVISIONS APPLICABLE TO COVERED PARTICIPANTS

Awards subject to Performance Criteria paid to Covered Participants under this Plan shall be governed by the conditions of this Section 11 in addition to the requirements of Sections 6.4, 6.7, 6.8 and 6.9 above. Should conditions set forth under this Section 11 conflict with the requirements of Sections 6.4, 6.7, 6.8 and 6.9, the conditions of this Section 11 shall prevail.

(a) All Performance Measures, Goals, or Criteria relating to Covered Participants for a relevant Performance Period shall be established by the Committee in writing prior to the beginning of the Performance Period, or by such other later date for the Performance Period as may be permitted under Section 162(m) of the Code. The Performance Goals may be identical for all Participants or, at the discretion of the Committee, may be different to reflect more appropriate measures of individual performance.

(b) The Performance Goals relating to Covered Participants for a Performance Period shall be established by the Committee in writing. Performance Goals may include alternative and multiple Performance Goals and may be based on one or more business and/or financial criteria. In establishing the Performance Goals for the Performance Period, the Committee in its discretion may include one or any combination of the following criteria in either absolute or relative terms, for the Company or any Subsidiary:

- (i) Total shareholder return;
- (ii) Return on assets, equity, capital, or investment;
- (iii) Pre-tax or after-tax profit levels, including: earnings per share; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; net operating profits after tax, and net income;
- (iv) Cash flow and cash flow return on investment;
- (v) Economic value added and economic profit;
- (vi) Growth in earnings per share;
- (vii) Levels of operating expense or other expense items as reported on the income statement, including operating and maintenance expense; or
- (viii) Measures of customer satisfaction and customer service as surveyed from time to time, including the relative improvement therein.

(c) The Performance Goals must be objective and must satisfy third party "objectivity" standards under Section 162(m) of the Code, and the regulations promulgated thereunder.

(d) The Committee is authorized to make adjustments in the method of calculating attainment of Performance Goals in recognition of: (i) extraordinary or non-recurring items, (ii) changes in tax laws, (iii) changes in generally accepted accounting principles or changes in accounting principles, (iv) charges related to restructured or discontinued operations, (v) restatement of prior period financial results, and (vi) any other unusual, non-recurring gain or loss that is separately identified and quantified in the Company's financial statements. Notwithstanding the foregoing, the Committee may, at its sole

discretion, reduce the performance results upon which Awards are based under the Plan, to offset any unintended result(s) arising from events not anticipated when the Performance Goals were established, provided that such adjustment is permitted by Section 162(m) of the Code.

(e) The Performance Goals shall not allow for any discretion by the Committee as to an increase in any Award, but discretion to lower an Award is permissible.

(f) The Award and payment of any Award under this Plan to a Covered Participant with respect to a relevant Performance Period shall be contingent upon the attainment of the Performance Goals that are applicable to such Covered Participant. The Committee shall certify in writing prior to payment of any such Award that such applicable Performance Goals relating to the Award are satisfied. Approved minutes of the Committee may be used for this purpose.

(g) The maximum Award that may be paid to any Covered Participant under the Plan pursuant to Sections 6.4, 6.7, 6.8 and 6.9 for any Performance Period shall be (i) if in cash, One Million Dollars (\$1,000,000.00) and (ii) if in shares of Common Stock, five hundred thousand (500,000) shares.

(h) All Awards to Covered Participants under this Plan shall be further subject to such other conditions, restrictions, and requirements as the Committee may determine to be necessary to carry out the purpose of this Section 11.

ARTICLE 12

AMENDMENT OR DISCONTINUANCE

Subject to the limitations set forth in this Article 12, the Board may at any time and from time to time, without the consent of the Participants, alter, amend, revise, suspend, or discontinue the Plan in whole or in part; provided, however, that no amendment which requires stockholder approval in order for the Plan and Incentives awarded under the Plan to continue to comply with Section 162(m) of the Code, including any successors to such Section, shall be effective unless such amendment shall be approved by the requisite vote of the stockholders of the Company entitled to vote thereon. Any such amendment shall, to the extent deemed necessary or advisable by the Committee, be applicable to any outstanding Incentives theretofore granted under the Plan, notwithstanding any contrary provisions contained in any Award Agreement. In the event of any such amendment to the Plan, the holder of any Incentive outstanding under the Plan shall, upon request of the Committee and as a condition to the exercisability thereof, execute a conforming amendment in the form prescribed by the Committee to any Award Agreement relating thereto. Notwithstanding anything contained in this Plan to the contrary, unless required by law, no action contemplated or permitted by this Article 12 shall adversely affect any rights of Participants or obligations of the Company to Participants with respect to any Incentive theretofore granted under the Plan without the consent of the affected Participant.

Customer Contact Center Incentive Program February 2010

Objectives

- Incent performance consistent with the Enterprise's customer service strategy and direction
- Incent a higher level of performance based on exceeding targets defined in the Scorecard
- Balance incentive between quality and productivity
- Roll out a plan that is achievable

What is the incentive?

- The Scorecard is comprised of four key metrics
- Each key metric is weighted based on impact to the Customer and to the Contact Center
- The incentive is based on exceeding targets for the four metrics
- Ranges have been established to incent a higher level of performance
- The higher the weight of the key metric, the more it will impact the incentive payout

Guidelines

- Quality Assurance result is a 3 month average
- Absenteeism Rate is a 12 month rolling number
 - *Occurrence Rate will no longer be used in Incentive calculation or Absenteeism on the Scorecard*
- Schedule Adherence and Handle Time will be scored in the current incentive period
- Personal time will no longer be included in Handle Time
- If the CSA is on disciplinary action, no incentive will be paid out in the period received
- The incentive amount can increase or decrease based on the hours worked
- Targets and Incentive ranges will be used, not floor averages
- Targets and Incentive ranges will continuously be evaluated and adjusted if necessary

Targets and Ranges

- The key metrics on the Scorecard will have targets associated with each metric
 - Targets identified so CSAs understand the expectation of the key metric
 - A target will be coached as a goal that all CSAs can and should achieve
- The key metrics on the Incentive will have ranges associated with each metric and different levels of payout
 - Incentive ranges are what the CSA achieves in excess of the base responsibilities
 - Ranges are set up to incent CSAs to achieve above standard results

How to Calculate

- $\text{The Attendance Score} + \text{Quality Score} + \text{Schedule Adherence Score} + \text{Handle Time Score} = \text{Total Score and Payout Level}$
- Less:
- $\text{Payout Level} * \text{Percentage of Hours worked} = \text{PAYOUT}$
- Multiply:
- $\text{Overtime Hours} / \text{Scheduled Hours} = \text{Percentage Overtime worked}$
- $\text{Percentage of OT worked} * \text{Payout} = \text{TOTAL PAYOUT}$

Example data January 2010 – New Customer



• New Customer Incentive Points and results

- Amarillo includes Jackson

Incentive Ranges
<6:30
6:30 - 6:45
6:46 - 7:15
7:16 - 7:45
>7:45

Today, approximately 40% are disqualified due to handle time

Waco New Customer	# of	Percent	Amarillo New Customer	# of	Percent
No incentive points	30	37.04%	No incentive points	27	39.71%
Level 1 55 points	18	22.22%	Level 1 55 points	7	10.29%
Level 2 75 points	12	14.81%	Level 2 75 points	9	13.24%
Level 3 90 points	5	6.17%	Level 3 90 points	11	16.18%
Level 4 100 points	16	19.75%	Level 4 100 points	14	20.59%

Incentive Calculation



Step 1

To estimate incentive:

Step 1: CSA enters estimated results in Orange cells with an X

Step 2: Enters a percentage of calls answered

Step 3: Enters Overtime and Hours Missed

Step 4: Sees estimated payout

See spreadsheet for more details.

	Scale	Results	Points	Percent of Attendance	Attendance Score	Scorecard Weight	Score
Attendance - Absenteeism Rate	<10%		100				
	10% - 14%		90				
	15% - 20%	X	75	100%	90	30%	31.5
	21% - 25%		55				
	>25%		0				

	Scale	Results	Points	Percent of Schedule Adherence	Schedule Adherence Score	Scorecard Weight	Score
Schedule Adherence	99.5% or higher		100				
	97.6 - 99.5%		90				
	95.6 - 97.5%		75	100%	95	20%	19.0
	95.0 - 95.5%	X	55				
	<95.0%		0				

	Scale	Results	Points	% of Calls Answered	AHT Score	Scorecard Weight	Score
Handle Time	<6:45		100				
	6:45 - 7:15		90				
	7:16 - 7:45	X	75	0%			
	7:46 - 8:15		55				
	>8:15		0				
	<5:15		100				
	5:15 - 5:45		90				
	5:46 - 6:15		75	100%	55.0	15%	8.3
	6:16 - 6:45	X	55				
	>6:45		0				

	Scale	Results	Points	Percent of Quality	Quality Score	Scorecard Weight	Score
Quality	100% or higher		100				
	90% - 99.9%	X	90	100%	90	30%	27.0
	80% - 89.9%		75				
	70% - 79.9%		55				
	<70%		0				

Payout Table	
Scorecard Results	Incentive Payout
100.0	\$125
90.0 - 99.9	\$205
75.0 - 89.9	\$205
60.0 - 74.9	\$75
<60.0	\$0

WORKSHEET	
Total Hours	160
OT Hours	
Hours Missed	
% of Payout	100%

TOTAL	PAYOUT
77.8	\$ 245.00

Step 3

Step 2

Step 4

**Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
CURB DR Set No. 1
Question No. 1-037
Page 33 of 84**

REQUEST:

Describe and quantify any SERP costs included in the Company's filing and describe how the Company's claim for SERP costs was determined.

RESPONSE:

Please see Attachment 1.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, CURB_1-037_Att1 - SERP Costs FY13.xlsx, 2 Pages.

Respondent: Joe Christian

Atmos Energy Corporation, SSU and KS
 SERP Costs
 For Fiscal Years 2013

Division	Cost Center	Cost Center Description	Account	Account Description	Sub Account	Sub Account Description	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Total				
002	1908	SS Dallas SEBP	9260	A&G - Employee Pensions and Benefits	07489	NQ Retirement Cost	Total Expense	745,546	745,546	745,546	745,546	745,546	748,246	2,874,951	690,801	701,405	708,659	699,301	690,801	10,841,892			
							Capitalization Rate	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%	81.90%
							Amount Capitalized	461,467	461,467	461,467	461,467	461,467	463,138	1,779,494	427,582	434,145	438,635	432,843	427,582	6,710,752			
							Net Expense	284,079	284,079	284,079	284,079	284,079	285,108	1,095,457	263,219	267,260	270,024	266,458	263,219	4,131,140			
002	1402	SS Dallas Executive Compensation	9260	A&G - Employee Pensions and Benefits	07489	NQ Retirement Cost	Total Expense	-	-	-	-	(442)	(659)	-	-	-	-	-	-	(1,101)			
							Capitalization Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
							Amount Capitalized	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
							Net Expense	-	-	-	-	-	(442)	(659)	-	-	-	-	-	-	-	-	-
Total Expense*							284,079	284,079	284,079	284,079	283,637	284,449	1,095,457	263,219	267,260	270,024	266,458	263,219	4,130,039				

*The amounts reflected are before allocations

Note

All SERP costs for Company 10 (Shared Services) are recorded in Division 002

Almos Energy Corporation, SSU and KS
 SERP Costs
 For Fiscal Years 2013

Division	Account	Account Description	Sub Account	Sub Account Description	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Total
030	9260	A&G-Employee pensions and benefits	07489	NQ Retirement Cost	2,105	22,323	12,214	12,214	12,214	12,214	1,003,386	12,429	12,429	12,429	12,429	12,429	1,138,815
030	9260	A&G-Employee pensions and benefits	07490	SERP Capitalized	-	(10,918)	(5,459)	(5,459)	(5,459)	(5,459)	(461,416)	(5,575)	(5,575)	(84,852)	(5,575)	(5,575)	(601,323)
				Net Expense	2,105	11,405	6,755	6,755	6,755	6,755	541,971	6,854	6,854	(72,423)	6,854	6,854	537,492

Note

All SERP costs for Company 60 (Almos Energy -Colorado-Kansas) are recorded in Division 030

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
CURB DR Set No. 1
Question No. 1-052
Page 48 of 84

REQUEST:

Regarding Workpaper WP 9-3, please itemize all medical, dental, pension, and workers compensation benefit costs budgeted for 2014, totaling \$7,936,005 for the Colorado/Kansas Business Unit and \$28,457,354 for the Shared Services Business Unit.

RESPONSE:

Please see the "Budget Summary" tab in the Relied File "Relied 9-3 - Budget figures for benefits adj calculations.xls."

Respondent: Joe Christian

Atmos Energy Corporation
 Kansas Distribution System Filing Requirements
 Test Year Ending September 30, 2013
 Benefits Adjustment - Pensions & Insurance calculations
 Budget figures - Fiscal Years 2011, 2012, 2013, 2014

	Co. 60 CO/KS BU	Co. 10 SSU BU
FY11 budgeted Benefits Percent Calc:		
budgeted Medical, Dental, Pension benefits	\$ 6,726,832	\$ 22,088,533
budgeted Workers Comp benefits	\$ 325,685	\$ 140,142
Total benefits - FY10 budget	\$ 7,052,517	\$ 22,228,675
Gross Labor - FY10 budget	\$ 18,155,829	\$ 67,964,322
budgeted Benefits as a percent of labor	38.84%	32.71%

	Co. 60 CO/KS BU	Co. 10 SSU BU
FY12 budgeted Benefits Percent Calc:		
budgeted Medical, Dental, Pension benefits	\$ 6,969,557	\$ 24,022,937
budgeted Workers Comp benefits	\$ 340,966	\$ 146,393
Total benefits - FY10 budget	\$ 7,310,523	\$ 24,169,330
Gross Labor - FY10 budget	\$ 18,313,717	\$ 71,115,270
budgeted Benefits as a percent of labor	39.92%	33.99%

	Co. 60 CO/KS BU	Co. 10 SSU BU
FY13 budgeted Benefits Percent Calc:		
budgeted Medical, Dental, Pension benefits	\$ 8,071,513	\$ 28,621,405
budgeted Workers Comp benefits	\$ 410,388	\$ 129,923
Total benefits - FY10 budget	\$ 8,481,901	\$ 28,751,328
Gross Labor - FY10 budget	\$ 18,245,646	\$ 72,590,578
budgeted Benefits as a percent of labor	46.49%	39.61%

	Co. 60 CO/KS BU	Co. 10 SSU BU
FY14 budgeted Benefits Percent Calc:		
budgeted Medical, Dental, Pension benefits	\$ 7,468,099	\$ 28,329,071
budgeted Workers Comp benefits	\$ 467,906	\$ 128,283
Total benefits - FY10 budget	\$ 7,936,005	\$ 28,457,354
Gross Labor - FY10 budget	\$ 18,858,895	\$ 75,025,663
budgeted Benefits as a percent of labor	42.08%	37.93%

FY11 Budget	CKDI Colorado/Kansas Division	SSDI Shared Services
Total Salaries	\$18,155,829	\$67,964,322
Medical and Dental	\$ 3,027,570	\$ 9,784,992
Basic Life Rate Per Month	\$ 96,299	\$ 360,639
LTD/FMLA Annual Rate	\$ 155,345	\$ 581,146
ESOP Match	\$ 673,944	\$ 2,523,933
ESOP Other	\$ 10,056	\$ 37,361
FAS 87 (PAP Expense)	\$ 1,512,539	\$ 5,015,793
FAS 106 (Retiree Medical)	\$ 1,251,078	\$ 3,784,669
Sub-Total	\$ 6,726,832	\$ 22,088,533
Workers Compensation	\$ 325,685	\$ 140,142
Total	\$ 7,052,517	\$ 22,228,675

FY12 Budget	CKDI Colorado/Kansas Division	SSDI Shared Services
Total Salaries	\$18,313,717	\$71,115,270
Medical and Dental	\$ 3,270,732	\$ 11,339,047
Basic Life Rate Per Month	\$ 97,136	\$ 378,392
LTD/STD/FMLA Annual Rate	\$ 156,514	\$ 607,337
ESOP Match	\$ 715,040	\$ 2,424,160
ESOP Other	\$ 11,864	\$ 44,882
FAS 87 (PAP Expense)	\$ 1,588,271	\$ 5,279,119
FAS 106 (Retiree Medical)	\$ 1,130,000	\$ 3,950,000
Sub-Total	\$ 6,969,557	\$ 24,022,937
Workers Compensation	\$ 340,966	\$ 146,393
Total	\$ 7,310,523	\$ 24,169,330

FY13 Budget	CKDI Colorado/Kansas Division	SSDI Shared Services
Total Salaries	\$18,245,646	\$72,590,578
Medical and Dental	\$ 3,225,388	\$ 12,504,057
Basic Life Rate Per Month	\$ 96,785	\$ 385,020
LTD/STD/FMLA Annual Rate	\$ 155,242	\$ 615,517
ESOP Match	\$ 715,040	\$ 2,424,160
ESOP Other	\$ 11,440	\$ 44,350
FAS 87 (PAP Expense)	\$ 2,057,618	\$ 7,588,300
FAS 106 (Retiree Medical)	\$ 1,810,000	\$ 5,060,000
Sub-Total	\$ 8,071,513	\$ 28,621,405
Workers Compensation	\$ 410,388	\$ 129,923
Total	\$ 8,481,901	\$ 28,751,328

FY14 Budget	CKDI Colorado/Kansas Division	SSDI Shared Services
Total Salaries	\$18,858,895	\$75,025,663
Medical and Dental	\$ 3,409,455	\$ 13,135,373
Basic Life Rate Per Month	\$ 100,037	\$ 397,936
LTD/STD/FMLA Annual Rate	\$ 144,219	\$ 571,450
ESOP Match	\$ 700,608	\$ 2,374,164
ESOP Other	\$ 13,504	\$ 52,026
FAS 87 (PAP Expense)	\$ 1,718,948	\$ 6,373,001
FAS 106 (Retiree Medical)	\$ 1,250,000	\$ 4,980,001
FAS	\$ 72,160	\$ 244,531
HS	\$ 59,167	\$ 200,589
Sub-Total	\$ 7,468,099	\$ 28,329,071
Workers Compensation	\$ 467,906	\$ 128,283
Total	\$ 7,936,005	\$ 28,457,354

CKDI Colorado/Kansas

FY11 Budget

Division

Total Salaries		\$18,155,829
Medical and Dental	\$	3,027,570
Basic Life Rate Per Month	\$	96,299
LTD/STD/FMLA Annual Rate	\$	155,345
ESOP Match	\$	673,944
ESOP Other	\$	10,056
FAS 87 (PAP Expense)	\$	1,512,539
FAS 106 (Retiree Medical)	\$	1,251,078
Sub-Total	\$	6,726,832
Workers Compensation	\$	325,685

**Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
CURB DR Set No. 1
Question No. 1-057
Page 53 of 84**

REQUEST:

Provide, for each of the past five years as well as for the test year:

- a) the amount of bad debts written-off,
- b) the amount of bad debts written off that were subsequently recovered,
- c) the amount of any additions to a bad debt reserve, and
- d) the total revenues from electric sales.

RESPONSE:

Please see Attachment 1.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, CURB_1-057_Att1 - Bad Debt.xlsx, 1 Page.

Respondent: Jason Schneider

Atmos Energy Corporation, SSU and KS
 KS Bad Debt
 For Fiscal Years 2009 thru 2013

Bad Debt Writeoffs					
Division	FY09	FY10	FY11	FY12	FY13
081	837,791	796,030	838,836	1,021,453	234,219
086	15,954	10,969	13,899	-	-
030	-	-	-	-	-
TOTAL	853,745	806,998	852,734	1,021,453	234,219

Bad Debt Recovered					
Division	FY09	FY10	FY11	FY12	FY13
081	(644,744)	(499,227)	(362,154)	(519,227)	(165,629)
086	(11,773)	(7,232)	(7,281)	-	-
030	-	-	-	-	-
TOTAL	(656,517)	(506,460)	(369,434)	(519,227)	(165,629)

Additions to Bad Debt Expense					
Division	FY09	FY10	FY11	FY12	FY13
081	(67,572)	141,859	644,650	520,514	829,979
086	(15,454)	(6,554)	18,030	-	-
030	-	-	-	-	-
TOTAL	(83,027)	135,305	662,680	520,514	829,979

Total Gas Revenue					
Division	FY09	FY10	FY11	FY12	FY13
081	132,219,113	112,432,941	102,803,867	95,550,892	117,242,266
086	6,708,523	8,328,428	11,773,668	-	-
030	-	-	-	-	-
TOTAL	138,927,636	120,761,369	114,577,535	95,550,892	117,242,266

**Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
CURB DR Set No. 1
Question No. 1-059
Page 1 of 1**

REQUEST:

Please provide a five year history of injuries and damages expenses.

RESPONSE:

Please see Attachment 1 for the five year history of injuries and damages expenses.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, CURB_1-059_Att1 - 9250 Injuries and Damages FY09-FY13.xlsx, 1 Page.

Respondent: Jason Schneider

Atmos Energy Corporation, SSU and KS
Acct 925 Injuries and Damages
For Fiscal Years 2009 through 2013

Division	Account	Account Description	FY09	FY10	FY11	FY12	FY13	Note
002	Dallas Atmos Rate Division - 002DIV	9250 A&G-Injuries & damages	7,351,115	14,712,552	7,034,696	15,279,947	15,958,488	(1)
012	Call Center Division - 012DIV	9250 A&G-Injuries & damages	(729)	-	99,033	1,665	295	
030	GGC/Denver Company Division - 030DIV	9250 A&G-Injuries & damages	308,251	319,628	245,714	205,299	53,417	
080	GGC-Kansas ADM Division - 080DIV	9250 A&G-Injuries & damages	49,338	10,908	50,952	52,818	40,317	
081	KS Division - 081DIV	9250 A&G-Injuries & damages	55,054	35,518	10,504	11,120	264,779	
086	Southwest Kansas Division - 086DIV	9250 A&G-Injuries & damages	-	-	-	-	41	
002	Dallas Atmos Rate Division - 002DIV	Amounts Not Allocated	-	5,000,000	(4,500,000)	2,000,150	1,050,421	(1)
002	Dallas Atmos Rate Division - 002DIV	Total Amounts Allocated	<u>7,351,115</u>	<u>9,712,552</u>	<u>11,534,696</u>	<u>13,279,797</u>	<u>14,908,068</u>	(1)

(1) Portion of Div 002 Account 9250 (A&G-Injuries & Damages) do not get allocated out

Note - These dollars are per the General Ledger System and are before any allocations. SSU and Division 30 allocate a portion of costs to the Kansas division.

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
CURB DR Set No. 1
Question No. 1-072
Page 68 of 84

REQUEST:

Provide the amount of meals expenses included in the test year but disallowed for tax purposes.

RESPONSE:

Meals expense recorded in sub-account 05411: \$3,964,913
Disallowed for tax purposes (50%): \$1,982,457

Capitalized meals and entertainment included in fixed assets: \$370,355
Disallowed for tax purposes (50%): \$185,178

Respondent: Joe Christian

Atmos Energy Corporation
 Capitalized Meals & Entertainment by Divisions 002, 012, 030 and Kansas

		Atmos Balance	DIV-02	DIV-12	DIV-030	KANSAS
Capitalized Meals & Entertainment Included in Fixed Assets	370,355	370,355	8,495	132,310	-	7,505
50% Disallowed	50%	50%	50%	50%	50%	50%
Capitalized Meals & Entertainment Permanent Difference	185,178	185,178	4,248	66,155	-	3,753
Additional Income						

Atmos Energy Corporation
 Meals & Entertainment by Divisions 002, 012, 030 and Kansas

		Atmos Balance	DIV-02	DIV-12	DIV-030	KANSAS
Income Statement Accounts with Sub Account 05411	3,964,908	3,964,908	569,992	373,472	78,118	83,879
50% Disallowed	50%	50%	50%	50%	50%	50%
Meals & Entertainment Permanent Adjustment	1,982,454	1,982,454	284,996	186,736	39,059	41,939
Additional Income						

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
CURB DR Set No. 1
Question No. 1-073
Page 1 of 1

REQUEST:

Please provide all supporting assumptions and documentation for the payroll tax rate of 8.0% referenced on page 15, line 15 of Mr. Christian's testimony.

RESPONSE:

The 8.0% referenced in Mr. Christian's Direct Testimony is a roundup of the payroll tax rate of 7.65% (6.2% social security, 1.45% medicare), which is what the Company utilizes when preparing its labor budget.

Respondent: Joe Christian

Docket No. 14-ATMG-XXX-RTS
Atmos Energy Corporation, Kansas Division
Staff DR Set No. 1
Question No. 1-052
Page 1 of 1

REQUEST:

[Income Statement] - Please Provide Staff with the Following Information:

A breakdown of test year advertising expenses between promotional (corporate image), educational, safety, economic development, and any other applicable categories. Please include a brief description of each advertising item upon which the Applicant is requesting rate relief.

RESPONSE:

Please see Attachment 1.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, Staff_1-052_Att1 - Advertising Expense.xlsx, 1 Page.

Respondent: Joe Christian

Atmos Energy Corporation, Shared Services and KS
 Advertising Expense
 Sub Account 04001-04046 Detail
 For 12 Months Ended Sep 13

Division	Description	Amount
002	Community Relations & Trade Show	16,491
002	Customer Relations & Assistance	290,944
002	Promotional	94,826
002	Safety	485
		<u>402,746</u>
012	Community Relations & Trade Show	3,913
		<u>3,913</u>
030	Community Relations & Trade Show	3,969
030	Customer Relations & Assistance	9,660
030	Promotional	5,552
030	Safety	133,800
		<u>152,981</u>
080	Community Relations & Trade Show	13,011
080	Customer Relations & Assistance	12,290
080	Promotional	26,975
		<u>52,275</u>
081	Community Relations & Trade Show	17,964
081	Customer Relations & Assistance	20,622
081	Promotional	821
081	Safety	2,546
		<u>41,953</u>
086	Safety	125
086	Promotional	160
		<u>285</u>
	Total	<u><u>654,152</u></u>

Docket No. 14-ATMG-XXX-RTS
Atmos Energy Corporation, Kansas Division
Staff DR Set No. 1
Question No. 1-062
Page 1 of 1

REQUEST:

[Income Statement] - Please Provide Staff with the Following Information:

List each expense related to payment of employee association dues or contributions. Specifically identify the activity and dollar amount paid, the account recorded in, where, and how such items are included in the application and the benefit to rate payers.

RESPONSE:

Please see Attachment 1. The Company supports community involvement of all of its leaders through participation in professional associations and community associations. This benefits the employee, and therefore the customer, by improving the employee's knowledge and skills in performing their duties and allows employees to be more involved in the activities of their communities.

Please note that an adjustment has been made on "WP 9-7" in Section 9 of the Company's filing to exclude potential expense report items (such as luxury meals) that Staff or Intervenors, such as CURB, might deem as inappropriate for inclusion in the rate setting process.

Atmos Energy agrees, without condition, to also exclude other items that are direct billed, but did not get excluded in the process of preparing this case if Staff or CURB will bring it to the Company's attention.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, Staff_1-062_Att1 - Membership and Association Due.xlsx, 2 Pages.

Respondent: Joe Christian

Almos Energy Corporation, Shared Services and KS
Membership Fees and Dues
TME September 30, 2013

Division	Division Name	VENDOR	Account	Account Description	Amount
002	Dallas Almos Rate Division	AICPA	9210	A&G-Office supplies & expense	5,154
002	Dallas Almos Rate Division	ALLIANCE OF SUPPLIER DIVERSITY PROFESSIONALS	9210	A&G-Office supplies & expense	800
002	Dallas Almos Rate Division	AMERICAN BAR ASSOCIATION	9210	A&G-Office supplies & expense	399
002	Dallas Almos Rate Division	AMERICAN BAR ASSOCIATION	9302	Miscellaneous general expenses	399
002	Dallas Almos Rate Division	AMERICAN GAS ASSOCIATION	9210	A&G-Office supplies & expense	11,818
002	Dallas Almos Rate Division	AMERICAN GAS ASSOCIATION	9302	Miscellaneous general expenses	2,145
002	Dallas Almos Rate Division	AMERICAN PATROLL ASSOCIATION	9210	A&G-Office supplies & expense	35
002	Dallas Almos Rate Division	AMERICAN REGISTRY FOR INTERNET NUMBERS LTD	9210	A&G-Office supplies & expense	100
002	Dallas Almos Rate Division	AMERICAN SOCIETY FOR TRAINING AND DEVELOPMENT	9210	A&G-Office supplies & expense	199
002	Dallas Almos Rate Division	ARMA	9302	Miscellaneous general expenses	240
002	Dallas Almos Rate Division	ASSOCIATION FOR FINANCIAL PROFESSIONALS	9210	A&G-Office supplies & expense	395
002	Dallas Almos Rate Division	ASSOCIATION FOR INFORMATION AND IMAGE MANAGEMENT	9210	A&G-Office supplies & expense	234
002	Dallas Almos Rate Division	ASSOCIATION OF CORPORATE COUNSEL	9302	Miscellaneous general expenses	590
002	Dallas Almos Rate Division	ASSOCIATION FOR RECORDS MANAGEMENT	9302	Miscellaneous general expenses	25
002	Dallas Almos Rate Division	ASTD	9210	A&G-Office supplies & expense	895
002	Dallas Almos Rate Division	BANK OF AMERICA	9210	A&G-Office supplies & expense	6,599
002	Dallas Almos Rate Division	BANK OF AMERICA	9302	Miscellaneous general expenses	203
002	Dallas Almos Rate Division	BLACK BOOK	9210	A&G-Office supplies & expense	339
002	Dallas Almos Rate Division	CENTER FOR DECISION AND INFORMATION	9210	A&G-Office supplies & expense	10,000
002	Dallas Almos Rate Division	CFA INSTITUTE	9210	A&G-Office supplies & expense	275
002	Dallas Almos Rate Division	CLIENT PROTECTION FUND	9302	Miscellaneous general expenses	130
002	Dallas Almos Rate Division	CORENET GLOBAL	9210	A&G-Office supplies & expense	1,835
002	Dallas Almos Rate Division	CORENET GLOBAL SOUTHWEST CHAPTER	9210	A&G-Office supplies & expense	1,250
002	Dallas Almos Rate Division	COSTCO	9210	A&G-Office supplies & expense	110
002	Dallas Almos Rate Division	CPE DEPOT	9210	A&G-Office supplies & expense	149
002	Dallas Almos Rate Division	D.C. BAR	9302	Miscellaneous general expenses	255
002	Dallas Almos Rate Division	DALLAS BAR ASSOCIATION	9302	Miscellaneous general expenses	205
002	Dallas Almos Rate Division	DALLAS CHAPTER - AMERICAN SOCIETY FOR TRAINING AND DEVELOPMENT	9210	A&G-Office supplies & expense	80
002	Dallas Almos Rate Division	DALLAS MORNING NEWS	9210	A&G-Office supplies & expense	229
002	Dallas Almos Rate Division	DALLAS REGIONAL CHAMBER	9210	A&G-Office supplies & expense	150
002	Dallas Almos Rate Division	DAX FINANCIAL GROUP	9302	Miscellaneous general expenses	-
002	Dallas Almos Rate Division	DFW ISCEBS	9210	A&G-Office supplies & expense	50
002	Dallas Almos Rate Division	DIRECTORS ROUNDTABLE	9210	A&G-Office supplies & expense	835
002	Dallas Almos Rate Division	ELEARNING GUILD	9210	A&G-Office supplies & expense	99
002	Dallas Almos Rate Division	ENERGY BAR ASSOCIATION	9302	Miscellaneous general expenses	170
002	Dallas Almos Rate Division	FINANCIAL ACCOUNTING STANDARDS BOARD	9210	A&G-Office supplies & expense	3,819
002	Dallas Almos Rate Division	GENERAL COUNSEL FORUM	9302	Miscellaneous general expenses	500
002	Dallas Almos Rate Division	IFMA	9210	A&G-Office supplies & expense	491
002	Dallas Almos Rate Division	INFRAGARD DALLAS MEMBER ALLIANCE INC.	9210	A&G-Office supplies & expense	20
002	Dallas Almos Rate Division	INSTITUTE FOR PROFESSIONALS IN TAXATION	9210	A&G-Office supplies & expense	900
002	Dallas Almos Rate Division	INTERNATIONAL SOCIETY OF CERTIFIED	9302	Miscellaneous general expenses	195
002	Dallas Almos Rate Division	INTERNATIONAL SOCIETY OF CERTIFIED EMPLOYEE BENEFITS SPECIALISTS	9210	A&G-Office supplies & expense	1,050
002	Dallas Almos Rate Division	INTERNATIONAL ENERGY CREDIT ASSOCIATION	9210	A&G-Office supplies & expense	325
002	Dallas Almos Rate Division	J N PRODUCTIONS	9210	A&G-Office supplies & expense	80
002	Dallas Almos Rate Division	JJ KELLER AND ASSOCIATES INC	9210	A&G-Office supplies & expense	849
002	Dallas Almos Rate Division	LOUISIANA STATE BAR	9302	Miscellaneous general expenses	435
002	Dallas Almos Rate Division	MISSISSIPPI NATURAL GAS ASSOCIATION	9210	A&G-Office supplies & expense	390
002	Dallas Almos Rate Division	MISSOURI BAR ASSOCIATION	9302	Miscellaneous general expenses	220
002	Dallas Almos Rate Division	NATIONAL ASSOCIATION OF LEGAL ASSISTANTS	9210	A&G-Office supplies & expense	125
002	Dallas Almos Rate Division	NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS	9210	A&G-Office supplies & expense	725
002	Dallas Almos Rate Division	NATIONAL ASSOCIATION OF STOCK PLAN PROFESSIONALS	9210	A&G-Office supplies & expense	805
002	Dallas Almos Rate Division	NATIONAL INVESTOR RELATIONS INSTITUTE	9210	A&G-Office supplies & expense	665
002	Dallas Almos Rate Division	NATURAL GAS AND ELECTRIC POWER SOCIETY	9210	A&G-Office supplies & expense	40
002	Dallas Almos Rate Division	NEW ORLEANS BAR ASSOCIATION	9302	Miscellaneous general expenses	125
002	Dallas Almos Rate Division	NORTH AMERICAN ENERGY STANDARDS BOARD	9210	A&G-Office supplies & expense	7,000
002	Dallas Almos Rate Division	NORTH TEXAS COMPENSTION ASSOCIATION	9210	A&G-Office supplies & expense	225
002	Dallas Almos Rate Division	OALG	9210	A&G-Office supplies & expense	880
002	Dallas Almos Rate Division	OKLAHOMA ACCOUNTANCY BOARD	9210	A&G-Office supplies & expense	152
002	Dallas Almos Rate Division	OKLAHOMA SOCIETY OF CPA	9210	A&G-Office supplies & expense	110
002	Dallas Almos Rate Division	ORACLE HCM USERS GROUP	9210	A&G-Office supplies & expense	799
002	Dallas Almos Rate Division	PCAOB PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD	9210	A&G-Office supplies & expense	31,200
002	Dallas Almos Rate Division	PLATTS INC	9210	A&G-Office supplies & expense	103,454
002	Dallas Almos Rate Division	PUBLIC AFFAIRS COUNCIL	9210	A&G-Office supplies & expense	5,250
002	Dallas Almos Rate Division	RISK & INSURANCE MANAGEMENT SOCIETY	9210	A&G-Office supplies & expense	670
002	Dallas Almos Rate Division	SAM'S CLUB	9210	A&G-Office supplies & expense	40
002	Dallas Almos Rate Division	SGA SOUTHERN GAS ASSOCIATION	9210	A&G-Office supplies & expense	775
002	Dallas Almos Rate Division	SIRM	9210	A&G-Office supplies & expense	90
002	Dallas Almos Rate Division	SOCIETY FOR HUMAN RESOURCE MANAGEMENT	9210	A&G-Office supplies & expense	180
002	Dallas Almos Rate Division	SOCIETY FOR INFORMATION MANAGEMENT	9210	A&G-Office supplies & expense	1,080
002	Dallas Almos Rate Division	SOCIETY OF DEPRECIATION PROFESSIONALS	9210	A&G-Office supplies & expense	170
002	Dallas Almos Rate Division	SOCIETY OF PETROLEUM ENGINEERS	9210	A&G-Office supplies & expense	325
002	Dallas Almos Rate Division	SOUTHEASTERN ASSOCIATION OF ADMINISTRATORS	9210	A&G-Office supplies & expense	500
002	Dallas Almos Rate Division	SOUTHERN GAS ASSOCIATION	9210	A&G-Office supplies & expense	3,150
002	Dallas Almos Rate Division	SOUTHWEST BENEFITS ASSOCIATION	9210	A&G-Office supplies & expense	675
002	Dallas Almos Rate Division	STATE BAR OF TEXAS	9210	A&G-Office supplies & expense	1,807
002	Dallas Almos Rate Division	STATE BAR OF TEXAS	9302	Miscellaneous general expenses	2,115
002	Dallas Almos Rate Division	TEXAS ASSOCIATION OF	9210	A&G-Office supplies & expense	1,850
002	Dallas Almos Rate Division	TEXAS BAR ASSOCIATION	9302	Miscellaneous general expenses	600
002	Dallas Almos Rate Division	TEXAS BOARD OF PROFESSIONAL ENGINEERS	9210	A&G-Office supplies & expense	270
002	Dallas Almos Rate Division	TEXAS DEPARTMENT OF INSURANCE	9210	A&G-Office supplies & expense	150
002	Dallas Almos Rate Division	TEXAS DEPARTMENT OF LICENSING AND	9210	A&G-Office supplies & expense	588
002	Dallas Almos Rate Division	TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY	9210	A&G-Office supplies & expense	1,255
002	Dallas Almos Rate Division	TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY	9302	Miscellaneous general expenses	1,250
002	Dallas Almos Rate Division	THE CORPORATE COUNSEL	9210	A&G-Office supplies & expense	5,035
002	Dallas Almos Rate Division	THE STATE BAR OF TEXAS	9210	A&G-Office supplies & expense	920
002	Dallas Almos Rate Division	THOMSON REUTERS TAX AND ACCOUNTING INC	9210	A&G-Office supplies & expense	649
002	Dallas Almos Rate Division	TSPBA	9210	A&G-Office supplies & expense	4,302
002	Dallas Almos Rate Division	TSCPA	9210	A&G-Office supplies & expense	5,587
002	Dallas Almos Rate Division	UNCLAIMED PROPERTY PROFESSIONALS ORGANIZATION	9210	A&G-Office supplies & expense	425
002	Dallas Almos Rate Division	UNIVERSITY OF OKLAHOMA FOUNDATION	9210	A&G-Office supplies & expense	5,000
002	Dallas Almos Rate Division	WOMENS BUSINESS COUNCIL SOUTHWEST	9210	A&G-Office supplies & expense	750
002	Dallas Almos Rate Division	WORLDALWORK	9210	A&G-Office supplies & expense	590
					247,598

Atmos Energy Corporation, Shared Services and KS
 Membership Fees and Dues
 TME September 30, 2013

Division	Division Name	VENDOR	Account	Account Description	Amount
012	Call Center Division	AMERICAN SOCIETY FOR TRAINING AND DEVELOPMENT	9210	A&G-Office supplies & expense	1,039
012	Call Center Division	BANK OF AMERICA	9210	A&G-Office supplies & expense	135
012	Call Center Division	ELEARNING BROTHERS	9210	A&G-Office supplies & expense	249
012	Call Center Division	INSTITUTE OF INTERNAL AUDITORS	9210	A&G-Office supplies & expense	230
012	Call Center Division	INSTITUTE OF MANAGEMENT ACCOUNTANTS	9210	A&G-Office supplies & expense	245
012	Call Center Division	IURPA	9210	A&G-Office supplies & expense	50
012	Call Center Division	NACIA	9210	A&G-Office supplies & expense	4,500
012	Call Center Division	PANHANDLE HUMAN RESOURCES	9210	A&G-Office supplies & expense	35
012	Call Center Division	PRESS CLUB OF DALLAS	9210	A&G-Office supplies & expense	200
012	Call Center Division	PUBLIC RELATIONS SOCIETY OF AMERICA	9210	A&G-Office supplies & expense	365
012	Call Center Division	SHRM	9210	A&G-Office supplies & expense	345
012	Call Center Division	SOCIETY FOR HUMAN RESOURCE MANAGEMENT	9210	A&G-Office supplies & expense	90
012	Call Center Division	SOCIETY OF HUMAN RESOURCE MANAGEMENT	9210	A&G-Office supplies & expense	180
012	Call Center Division	SOUTH AMBUGS	9210	A&G-Office supplies & expense	150
012	Call Center Division	SOUTHERN GAS ASSOCIATION	9210	A&G-Office supplies & expense	655
012	Call Center Division	SOUTHWEST AMBUGS	9210	A&G-Office supplies & expense	450
012	Call Center Division	TEXAS STATE BOARD OF PUBLIC ACCOUNTANCY	9210	A&G-Office supplies & expense	251
					<u>9,169</u>

Division	Division Name	VENDOR	Account	Account Description	Amount
030	GGC/Denver Company Division	ENERGY SOLUTIONS CENTER INC	9302	Miscellaneous general expenses	4,400
030	GGC/Denver Company Division	OVERLAND PARK CHAMBER OF COMMERCE	9302	Miscellaneous general expenses	1,442
					<u>5,842</u>

Division	Division Name	VENDOR	Account	Account Description	Amount
060	GGC-Kansas ADM Division	BONNER SPRINGS EDWARDSVILLE AREA CHAMBER OF COMMERCE	9302	Miscellaneous general expenses	3,600
060	GGC-Kansas ADM Division	CHAMBER OF COMMERCE	9302	Miscellaneous general expenses	16,437
060	GGC-Kansas ADM Division	F AND M BANK	9302	Miscellaneous general expenses	50
060	GGC-Kansas ADM Division	INDEPENDENCE CHAMBER OF COMMERCE	9302	Miscellaneous general expenses	1,248
060	GGC-Kansas ADM Division	SOUTHWEST JOHNSON COUNTY EDC	9302	Miscellaneous general expenses	1,250
060	GGC-Kansas ADM Division	WYANDOTTE ECONOMIC DEVELOPMENT COUNCIL INC	9302	Miscellaneous general expenses	1,500
					<u>23,885</u>

Division	Division Name	VENDOR	Account	Account Description	Amount
061	KS Division	AICPA	9210	A&G-Office supplies & expense	25
061	KS Division	CALDWELL CHAMBER OF COMMERCE	9302	Miscellaneous general expenses	80
061	KS Division	CHAMBER OF COMMERCE	9302	Miscellaneous general expenses	4,020
061	KS Division	TSCPA	9210	A&G-Office supplies & expense	71
					<u>4,176</u>

Division	Division Name	VENDOR	Account	Account Description	Amount
066	Southwest Kansas Division	TSCPA	9210	A&G-Office supplies & expense	1
					<u>1</u>

Docket No. 14-ATMG-XXX-RTS
Atmos Energy Corporation, Kansas Division
Staff DR Set No. 1
Question No. 1-065
Page 1 of 2

REQUEST:

[Income Statement] - Please Provide Staff with the Following Information:

Please identify any changes in incentive compensation programs that have taken place over the past five years or that are projected for the future.

RESPONSE:

- Beginning in FY 2012, when participants in the Incentive Plan elect to convert all or a portion of their incentive payments to time-lapse restricted stock units or shares of bonus stock prior to the beginning of each fiscal year, the premium in value they will receive for the conversion to RSU's will be reduced from 150% to 120% of the value at the date of grant, while the premium received for shares of bonus stock will be reduced from 110% to 105%;
- Beginning in FY 2012, the performance targets and actual performance attainment for both the Incentive Plan and performance-based restricted stock units granted under the LTIP will exclude any mark-to-market gains or losses recognized by the Company's nonregulated operations.
- Beginning in FY 2010, imposition of limits on the amount of awards earned as annual incentive compensation by our named executive officers with respect to the payouts under the Incentive Plan. If the total increase in the price of a share of Company common stock and the cumulative amount of dividends paid ("Total Shareholder Return") during the fiscal year is negative, the payout of the award for each named executive officer will be reduced to the amount awarded at the target level of the applicable incentive opportunity for each named executive officer, should the Company's performance exceed the performance target and fall between the target and maximum levels of performance.
- Beginning in FY 2010, any distributions of awards of performance-based restricted stock units that have been granted to our named executive officers under our LTIP shall be reduced to the amount awarded at the target level of performance, unless the Total Shareholder Return during the three-year performance period is positive.
- Beginning in FY 2011 changed the definition of compensation in the MIP and VPP from annual salary as of 9/30/xx to Eligible earnings for the FY. Eligible earnings is the same definition that is contained in the defined benefit plan (PAP) defined contribution plan (RSP) except that the compensation limits imposed on qualified plans by current regulations do not apply to this incentive plan definition.

Docket No. 14-ATMG-XXX-RTS
Atmos Energy Corporation, Kansas Division
Staff DR Set No. 1
Question No. 1-065
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- The Variable Pay Plan is the Company's annual incentive plan providing eligible employees with the opportunity to share in the Company's success. For an award to be paid, the Company has to achieve specific financial targets set by the Board of Directors, and employees must meet expectations by doing their job well, operating in a safe reliable manner, providing superior customer service and living AtmoSpirit.
- For FY 2013, the maximum payout percentage for the VPP was increased to 200% of target from 150% and incentive targets for employees in Grades 5-6 and Grade 7 (VPP) were increased to 5% and 7.5%, respectively, from 2%.
- For FY 2014, the target award for VPP eligible employees in Grades 1-4 is increasing from 2% to 3% of eligible earnings. The target award for Grades 5-6 is increasing from 5% to 7.5% and the target for Grade 7 employees in the VPP is increasing from 7.5% to 12%.

Also, please see Attachment 1 for changes to incentive compensation programs.

ATTACHMENTS:

ATTACHMENT 1 - Atmos Energy Corporation, Staff_1-065_Att1 - FY13 VPP Guidelines for VPP System.pdf, 2 Pages.

ATTACHMENT 2 - Atmos Energy Corporation, Staff_1-065_Att2 - FY14 VPP Guidelines.pdf, 2 Pages.

ATTACHMENT 3 - Atmos Energy Corporation, Staff_1-065_Att3 - Changes to Incentive Compensation Programs.pdf, 2 Pages.

Respondent: Bart Armstrong

VARIABLE PAY PLAN (VPP) FY 2013 GUIDELINES

- Performance targets for the plan are set by the Board of Directors and tied to annual profitability goals expressed as Earnings Per Share (EPS).
- Mark-to-market accounting adjustments are excluded from the EPS calculation.
- Incentive awards will be based on each participant's **Eligible Earnings** during the fiscal year using the same definition of earnings as the Pension Account and Retirement Savings Plans.
- Incentive awards will not be paid if Company performance is below the established threshold EPS level.
- When threshold EPS is met or exceeded, a **Payout Percentage of Target** is determined using the respective year's Performance Pay Matrix.
- The incentive payment will be computed by multiplying **Eligible Earnings** by the **Incentive Target** times the **Payout Percentage of Target**.
- Time spent on Military Leave counts as time worked for computing incentive awards.
- A participant's job performance must meet expectations for an incentive award payout.
- Participants who terminate employment prior to the end of the performance period and/or prior to the payout date will not be eligible for an incentive award unless the termination is covered by one of the following:
 - **Retirement** - A participant who retires during the fiscal year, upon completing at least ten years of continuous service after the attainment of age 45, will receive an incentive award based on **Eligible Earnings** in the performance period.
 - **Disability** - An employee who becomes disabled and qualifies for Long-Term Disability benefits will receive an incentive award based on **Eligible Earnings** in the fiscal year to the date the employee is no longer able to work. This date is the beginning of the Elimination Period as defined by the Long-Term Disability Insurance Plan.
 - **Death** - An incentive award will be paid to the deceased's estate based on the employee's **Eligible Earnings** as if they worked for the entire performance period.

FY 2013 Performance Targets	
Threshold	\$2.35 EPS
Target	\$2.47 EPS
Maximum	\$2.59 EPS

**Atmos Energy Corporation
 Management Incentive Plan
 FY 2013 Payout Matrix**

	EPS	Payout % of Incentive Target
Threshold	Below Threshold	0%
	\$2.35	50%
	\$2.36	54%
	\$2.37	58%
	\$2.38	63%
	\$2.39	67%
	\$2.40	71%
	\$2.41	75%
	\$2.42	79%
	\$2.43	83%
	\$2.44	88%
	\$2.45	92%
	\$2.46	96%

	EPS	Payout % of Incentive Target	
	\$2.47	100%	Target
	\$2.48	108%	
	\$2.49	117%	
	\$2.50	125%	
	\$2.51	133%	
	\$2.52	142%	
	\$2.53	150%	
	\$2.54	158%	
	\$2.55	167%	
	\$2.56	175%	
	\$2.57	183%	
	\$2.58	192%	
	\$2.59	200%	Maximum

FY 2014 VARIABLE PAY PLAN (VPP) GUIDELINES

- The VPP is an annual incentive plan for certain Atmos Energy employees in Pay Grades 1 – 7. Union employees are not eligible for the VPP.
- Performance targets for the plan are set by the Board of Directors and tied to annual profitability goals expressed as Earnings per Share (EPS).
- Incentive awards will be based on **Company Performance** as well as each participant's **Job Performance, Incentive Target and Eligible Earnings** during the fiscal year.
 - **Eligible Earnings** are determined using the same definition of earnings as the Company's retirement plans
 - A participant's **Job Performance** must meet expectations to receive an award
 - Participants who terminate employment prior to the payout date will not be eligible for an incentive award unless their separation is due to Retirement, Disability or Death.
- VPP performance targets and **Payout Percentages** are as follows:

FY 2014 Performance Targets		Payout %
Below Threshold	Less than \$2.44	0%
Threshold	2.44	50%
Target	2.71	100%
Maximum	2.98	200%

- Incentive awards will not be paid if Company performance is below the established threshold EPS level.
- When threshold EPS is met or exceeded, a **Payout Percentage** is determined using the respective year's Performance Payout Matrix.
- The incentive payment will be computed by multiplying the **Payout Percentage** by the participant's **Incentive Target** then multiplying that by the participant's **Eligible Earnings**.
- The minimum payment is \$150 for employees hired in the fiscal year.
- Military leave of two weeks or more will be considered in the earnings calculation for computing incentive awards.
- Employees rehired in the same fiscal year of termination will be eligible for an incentive award based on eligible earnings from the rehire date to the end of the fiscal year.
- The following guidelines apply to employment status changes:
 - Participants who transfer to a job with a higher **Incentive Target** will be eligible for an incentive award computed under the higher **Incentive Target**.
 - Participants who transfer to a job with a lower **Incentive Target** will have their incentive award determined by a proration of the time spent during the fiscal year under each **Incentive Target**.

Please contact your local HR Representative with any additional questions you may have regarding the Plan.

**FY 2014
 ANNUAL INCENTIVE PLAN
 PERFORMANCE PAYOUT MATRIX**

Annual Incentive Opportunity As A Percent of Incentive Target

	EPS	Payout % of Incentive Target
Threshold	\$2.44	50%
	\$2.45	52%
	\$2.46	54%
	\$2.47	56%
	\$2.48	57%
	\$2.49	59%
	\$2.50	61%
	\$2.51	63%
	\$2.52	65%
	\$2.53	67%
	\$2.54	69%
	\$2.55	70%
	\$2.56	72%
	\$2.57	74%
	\$2.58	76%
	\$2.59	78%
	\$2.60	80%
	\$2.61	81%
	\$2.62	83%
	\$2.63	85%
	\$2.64	87%
	\$2.65	89%
	\$2.66	91%
	\$2.67	93%
	\$2.68	94%
	\$2.69	96%
	\$2.70	98%
Target	\$2.71	100%

	EPS	Payout % of Incentive Target	
	\$2.71	100%	Target
	\$2.72	104%	
	\$2.73	107%	
	\$2.74	111%	
	\$2.75	115%	
	\$2.76	119%	
	\$2.77	122%	
	\$2.78	126%	
	\$2.79	130%	
	\$2.80	133%	
	\$2.81	137%	
	\$2.82	141%	
	\$2.83	144%	
	\$2.84	148%	
	\$2.85	152%	
	\$2.86	156%	
	\$2.87	159%	
	\$2.88	163%	
	\$2.89	167%	
	\$2.90	170%	
	\$2.91	174%	
	\$2.92	178%	
	\$2.93	181%	
	\$2.94	185%	
	\$2.95	189%	
	\$2.96	193%	
	\$2.97	196%	
	\$2.98	200%	Maximum

Summary of Changes to Grants of Equity Compensation to Participants in the Company's 1998 Long-Term Incentive Plan ("LTIP")

INTRODUCTION

Beginning with the grants in May 2009, the Company is changing the type of equity compensation it will award participants in the LTIP. Time-lapse restricted stock units ("RSU's") will be granted in the place of time-lapse restricted stock in order to better align the time-lapse portion of our equity-based compensation with the performance-based portion of such compensation. The RSU's will be economically equivalent to the time-lapse restricted stock that was granted in prior years. In addition, the Company has made changes to the provisions of the performance-based restricted stock units ("P-B RSU's") which should further align the two types of grants and make their terms more consistent.

The following is a summary of the important features of the RSU's and the P-B RSU's, as amended. An important term that applies to both types of grants is "Retirement Eligible". A grantee is Retirement Eligible upon the attainment of age 55 and the completion of (3) three consecutive years of service.

TIME-LAPSE RESTRICTED STOCK UNITS

General Features

- Share units issued (like the P-B RSU's) instead of actual shares
- Three (3) year cliff vesting (same as time-lapse restricted stock)
- No voting rights (like the P-B RSU's) unlike time-lapse restricted stock
- Cash dividend equivalents paid through Company payroll system on a quarterly basis that will mirror amounts (and closely follow timing) of cash dividends paid on time-lapse restricted stock. (Dividend equivalents will **not** be considered eligible compensation for either Retirement Savings Plan or Pension Account Plan.)
- Settled in shares upon expiration of restriction period at fair market value (average of high and low price on NYSE) on date of issuance but Company will have option to settle RSU's in cash at same value
- Grantees who are Retirement Eligible and retire prior to the end of three (3) year restriction period will be required to hold RSU's for three (3) years from the grant date before receiving settlement of the RSU's in shares or cash.

PERFORMANCE-BASED RESTRICTED STOCK UNITS

General Features

- Will contain same features that currently exist for P-B RSU's except for modifications

discussed below, which are intended primarily to make features more consistent with those proposed for RSU's discussed above.

- P-B RSU's will be settled in shares of Company stock at end of performance period except that Company will have option to settle in cash at same value (same feature as discussed above for RSU's).
- Retirement Eligible grantees who retire prior to end of the three (3) year performance period, will be required to wait until end of such performance period when actual cumulative performance will be measured, before receiving settlement of pro-rated portion of their P-B RSU's (based on total number of months employed during performance period) and dividend equivalents thereon.
 - For example, assume that 400 P-B RSU's are granted in May 2009 (for the performance period of FY2009, FY2010 and FY 2011) and 400 P-B RSU's are granted May 2010 (for the performance period of FY2010, FY2011 and FY2012).
 - If the grantee is Retirement Eligible at the time of termination of employment on September 30, 2010, he will have worked 24 months in the FY 2009 Grant Performance Period and 12 months of the FY 2010 Grant Performance Period.
 - Provided that the respective performance thresholds have been met, in November 2011 the grantee will receive 2/3rds of the actual performance award for the FY 2009 grant plus dividend equivalents and in November 2012, the grantee will receive 1/3rd of the actual performance award for the FY 2010 grant plus dividend equivalents. Because income recognized from a P-B RSU grant is considered deferred compensation, each award is subject to federal income tax (and state income tax, if applicable) and FICA and will be reported on a W-2 even though the grantee is no longer an employee.

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
Staff DR Set No. 1
Question No. 1-089
Page 1 of 1

REQUEST:

Please provide the amount of rate case expense recorded in the test year.

RESPONSE:

The Company is still compiling the requested information and will supplement this response shortly.

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
Staff DR Set No. 1
Question No. 1-089 (Supplement 1)
Page 1 of 1

SUPPLEMENTAL RESPONSE (3/7/2014)

REQUEST:

Please provide the amount of rate case expense recorded in the test year.

SUPPLEMENTAL RESPONSE:

The total amount of rate case expense recorded in the test year is \$203,031.71. Also, please note that the proposed adjustment related to rate case expense needed to be updated for four items: 1) inclusion of expense related to Staff and CURB's expenses, 2) correct amount related to prior rate case expenses (see the Company's supplemental response to Staff DR No. 1-091), 3) make the adjustment IS-5 'net' of what is already recorded on the books during the test period and 4) remove some non-recurring expense had been recorded during the test period. Please see supplemental Attachment 1, which updates WP 9-6 for these four items.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, Staff_1-089_Att1_Suppl - Rate Case Expense Adj.xlsx, 65 Pages.

Respondent: Joe Christian

Section 9
 WP 9-6
 IS-5 - UPDATED STAFF 89

Atmos Energy Corporation
Kansas Distribution System Filing Requirements
Estimated Rate Case Expense Amortization
Test Year Ending September 30, 2013

Line No.	Category (a)	Description (b)	Amount (c)
1	Estimated Rate Case Expenses:		
2	Consulting Fees	Paul Raab (Cost of Service/Rate Design Witness)	\$ 35,000
3	Legal Fees	James G. Flaherty (Anderson & Byrd LLP)	80,000
4	Consulting Fees	William E. Avera & Adrien McKenzie (ROE Witnesses)	50,000
5	Employee Expenses	Airfare, lodging, meals, etc.	9,000
6	Miscellaneous Expenses	Printing, postage, advertising, etc.	55,000
6a	Non-Atmos Energy Expenses	Staff & CURB Expenses	189,759
7	Rate Case Expense related to Prior Dockets	Remaining amortization amounts 2010 & 2012 cases	183,506
8	Total Estimated Rate Case Expenses and remaining amortization		<u>\$ 602,265</u>
9			
10	Rate Case Expense Two Year Amortization (1)		\$ 301,132
11	Less Per Books Expense recorded in Division 080000		<u>(64,586)</u>
12	Rate Case Expense Adjustment - prior to removing out-of-period expenses		236,546
13	Less Out-of-period rate case expense recorded in test period recorded in Division 081000		<u>(138,445)</u>
14	Net Adjustment for Account 928 Regulatory Expense		98,101 IS-5
15			
16	Notes:		
17	1. The adjustment amortizes estimated Rate Case Expense over two years.		

Source: Staff 089_Att1 - Rate Case Expense Adj.

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
Staff DR Set No. 1
Question No. 1-117
Page 1 of 1

REQUEST:

Re: CURB DR No. 8 Miscellaneous Revenues

1. Please explain why forfeited discounts (account 4870) for Division 81 has declined each year over the last five years.
2. Please explain why miscellaneous service revenues (account 4880) for Division 81 increased so much in 2013.
3. Please explain why other gas revenues (account 4950) for Division 81 increased so much in 2013.

RESPONSE:

- 1) Forfeited discounts declined in fiscal years 2009 through 2012 because of declines in revenue driven primarily by lower billed gas costs. The decline in FY 2013 was primarily the result of the suspension of late payment charge assessments and collection activities for a period of approximately three months after the implementation of a new customer service system on May 1, 2013.
- 2) Miscellaneous service revenues increased as a result of the August 2012 increase in miscellaneous service revenue fees.
- 3) Other gas revenues (account 4950) increased as a result of an increase in the Ad Valorem Tax surcharge rate and an increase in the applicable volumes.

Respondent: Jason Schneider

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
Staff DR Set No. 1
Question No. 1-129
Page 7 of 17

REQUEST:

Section 5.2 lists the various performance goals the Management Committee can use in establishing the performance goals of the Variable Pay Plan for the Plan Year.

1. Please identify the performance goals the Management Committee chose for the Test Year in this rate case.
2. Please provide the cost of the Variable Pay Plan included in the Test Year broken out by division.

RESPONSE:

- a) Under Atmos Energy's performance management program, employees and their immediate supervisor establish individual performance goals based on department goals, area or division goals and corporate goals. These goals are based in part on operational goals, including service reliability, safety and customer service that provide benefits to Atmos Energy's customers. If the employee's overall performance meets expectations then the amount paid is determined by Corporate Earnings per Share. Employees who are evaluated as not meeting expectations are not eligible to receive incentive compensation. Please see Attachment 1 for the HR Committee's performance goals for FY 2012, which would have been paid out in November 2012 (FY 2013). Please see Attachment 2 for a sample of employee goals and results from FY 2013. The employee information in Attachment 2 is Confidential.
- b) Please see Attachment 3 for FY 2013 Variable Pay Plan (VPP) and Management Incentive Plan (MIP) expense. Both the VPP and MIP are recorded to subaccount 07452. The amounts are not separated in the Company's General Ledger.

ATTACHMENTS:

ATTACHMENT 1 - Atmos Energy Corporation, Staff_1-129_Att1 - Performance Goals for FY 2012 Incentive Plans.pdf, 11 Pages.

ATTACHMENT 2 - Atmos Energy Corporation, Staff_1-129_Att2 - FY 2013 Sample of Employee Reviews (CONFIDENTIAL).pdf, 11 Pages.

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
Staff DR Set No. 1
Question No. 1-129
Page 8 of 17

ATTACHMENT 3 - Atmos Energy Corporation, Staff_1-129_Att3 - FY13 VPP and MIP Expense.xlsx, 1 Page.

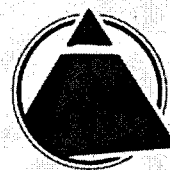
Respondents: Bart Armstrong and Jason Schneider

Atmos Energy Corporation

Establishing Performance Goals for 2012 Incentive Plans

Human Resources Committee
October 2011 Meeting

John Ellerman, Partner
john.ellerman@paygovernance.com



Pay Governance
Advisory Services to Compensation Committees



2012 AEC Annual Incentive Plans

- All employees in the Atmos organization, except for selected union employees, participate in one or more incentive compensation plans
- These plans have been designed to provide a clear line of sight to all employee participants with performance targets built around attainment of annual profitability targets expressed in earnings per share (EPS)
- The Management Incentive Plan (MIP) is an annual incentive plan which provides an annual bonus opportunity to all Atmos corporate officers, division presidents, director, and manager level employees in pay grades 7, 8, and 9 (an approximate 160 participants)
 - Target incentive opportunities are assigned by pay grade with target opportunities ranging from 20% to 80% of eligible earnings
 - The plan is designed to comply with Section 162(m) of the Internal Revenue Code (IRC) as a performance-based plan, allowing the Company to fully deduct awards earned and paid to a Named Executive Officers (NEO) subject to the \$1 million pay cap
- Atmos employees, other than selected key management employees, selected union employees and employees of Atmos Energy Holdings (AEH), participate in the Variable Pay Plan (VPP) (an approximate 4,550 participants)
 - Target incentive opportunities for all VPP participants are established at 2% of a participant's eligible earnings
 - The incentive award is based upon the employee's eligible earnings for the year and not just the employee's base salary rate at the beginning or end of the performance cycle
 - The VPP plan has the same performance target each year as the MIP, with the target expressed as an EPS goal
 - The maximum award for a VPP award is capped at 150 percent of target (3 percent of an employee's eligible earnings) for all participants



2012 AEC Annual Incentive Plans (continued)

- Participants in the AEC annual incentive plan who are also in the LTIP are allowed to convert a portion of their awards to bonus stock and/or time-lapse restricted stock units, with a premium adjustment
 - AEC participants in the MIP plan are allowed to convert in 25 percent increments up to 100% of their earned awards into 3-year time-lapse restricted stock units with a 20 percent premium added to the value of the award
 - Participants are also permitted to convert their cash incentive awards to bonus stock with a 5 percent premium



AEC Annual Incentive Plans – Targets

- For FY 2012, Atmos has developed a target EPS of \$2.35 for the MIP and VPP plans

Recommended FY 2012 MIP/VPP Plan Targets

	Threshold	Target	Max
EPS	\$ 2.09	\$ 2.35	\$ 2.61
Shares o/s	91,505	91,505	91,505
Net Income	\$ 190,827	\$ 214,916	\$ 239,195
Dividends	(126,277)	(126,277)	(126,277)
Dividend Rate	\$ 1.38	\$ 1.38	\$ 1.38

Reported in 000s or \$000s, as noted except for dividend rate

- It should be noted that the Company is recommending mark-to-market (MTM) accounting adjustments be excluded from the EPS calculation in FY 2012
- Additionally, in order for management committee members to be paid any bonus over target, the Company must achieve a positive Total Shareholder Return (TSR) (share price appreciation plus value of accrued dividends) for the year



AEC 2012 Annual Incentive Plans – Participation Summary

MIP and VPP (Excludes MC)						
					Number of Employees	
Pay Grade	Incentive Plan	Bonus Threshold % of Target	Target Bonus %	Bonus Maximum % of Target	Non LTIP	LTIP
10	MIP	50%	45%	200%	0	5
9E	MIP	50%	40%	200%	0	8
8E	MIP	50%	35%	200%	0	3
7E	MIP	50%	30%	200%	0	1
9	MIP	50%	30%	200%	0	5
8	MIP	50%	25%	200%	0	41
7	MIP	50%	20%	200%	0	94
7	VPP	50%	2%	150%	17	0
6	VPP	50%	2%	150%	264	0
5	VPP	50%	2%	150%	451	0
4	VPP	50%	2%	150%	634	0
3	VPP	50%	2%	150%	999	0
2	VPP	50%	2%	150%	1084	0
1	VPP	50%	2%	150%	1016	0
*U	VPP	50%	2%	150%	41	0
U	No Plan	0.0%	0%	0%	159	0
					4665	157
						4822

* Union Local 1439 in MO negotiated VPP while Union Local 1047C in MS has not



AEC 2012 Annual Incentive Plans – Estimated Cost

Incentive Elements	FY 2012**		
	Threshold	Target	Maximum
MIP*			
Number of Participants	157		
2012 EPS	\$ 2.09	\$ 2.35	\$ 2.61
MIP Funding	\$ 3,039,500	\$ 6,079,000	\$ 12,158,000
Percent of Target	50%	100%	200%
VPP			
Number of Participants	4506		
2012 EPS	\$ 2.09	\$ 2.35	\$ 2.61
VPP Funding	\$ 2,455,000	\$ 4,910,000	\$ 7,365,000
Percent of Target	50%	100%	150%
Total Participants	4663		
Total MIP and VPP	\$ 5,494,500	\$ 10,989,000	\$ 19,523,000

Incentive Elements	FY 2009				FY 2010				FY 2011			
	Threshold	Target	Maximum	***Paid Incentive	Threshold	Target	Maximum	Paid Incentive	Threshold	Target	Maximum	Recommended Incentive
MIP*												
Number of Participants	161				158				156			
EPS	\$ 1.86	\$ 2.10	\$ 2.35	\$ 2.08	\$ 1.95	\$ 2.20	\$ 2.46	\$ 2.20	\$ 2.02	\$ 2.27	\$ 2.53	\$ 2.27
MIP Funding	\$ 2,850,200	\$ 5,700,400	\$ 11,400,800	\$ 5,472,400	\$ 2,888,550	\$ 5,777,100	\$ 11,554,200	\$ 5,777,100	\$ 2,899,100	\$ 5,798,200	\$ 11,596,400	\$ 5,798,200
Percent of Target	50%	100%	200%	96%	50%	100%	200%	100%	50%	100%	200%	100%
VPP												
Number of Participants	4397				4389				4506			
EPS	\$ 1.86	\$ 2.10	\$ 2.35	\$ 2.10	\$ 1.95	\$ 2.20	\$ 2.46	\$ 2.20	\$ 2.02	\$ 2.27	\$ 2.53	\$ 2.27
VPP Funding	\$ 1,850,000	\$ 3,700,000	\$ 5,550,000	\$ 3,700,000	\$ 2,333,300	\$ 4,666,600	\$ 6,999,900	\$ 4,666,600	\$ 2,378,502	\$ 4,757,004	\$ 7,135,506	\$ 4,757,004
Percent of Target	50%	100%	150%	100%	50%	100%	150%	100%	50%	100%	150%	100%
Total Participants	4558				4547				4662			
Total MIP and VPP	\$ 4,700,200	\$ 9,400,400	\$ 16,950,800	\$ 9,172,400	\$ 5,221,850	\$ 10,443,700	\$ 18,554,100	\$ 10,443,700	\$ 5,277,602	\$ 10,555,204	\$ 18,731,906	\$ 10,555,204

* Management Committee Excluded, Corp Officers Included

** Based on October 1, 2011 Salaries for Non Officers and January 1, 2012 for Corp Officers

*** EPS paid at \$2.08; however, EPS was restated because of a change in accounting rules to \$2.07



2012 AEC Long-Term Incentive Plan

- Selected key management and supervisory employees also participate in a long-term equity incentive plan. The participants in this incentive arrangement receive long-term equity grants in two forms each year: (1) time-lapse restricted stock units (RSUs); and (2) performance-based restricted stock units (PBRsUs). The value of each award element (i.e., time lapse versus performance-based) is equal to 50% of the total long-term incentive opportunity. The performance measurement for the performance-based RSUs is stated as a 3-year cumulative EPS goal for Atmos. Based upon cumulative earnings over the 3-year measurement period, a participant may earn from 0% to 150% of the performance-based RSUs granted
- Effective 2010 going forward, in order for management committee members to be able to receive any distributions of awards of performance-based RSUs in excess of target, the Company's TSR over the three-year performance period must be positive
- The Human Resources Committee, as the designated plan administrator, must approve by a date no later than 90 days from the onset of the performance period, the performance targets for the applicable plan year(s)



2012 AEC Long-Term Incentive Plan – Performance-Based RSUs Performance Measurement

- Pay Governance recommends that Atmos continue to use cumulative 3-year EPS as the performance metric for the 50% of restricted shares which are granted as performance-based RSUs
- For the grant of performance-based RSUs which would be covered by fiscal years 2012, 2013, and 2014 we recommend the following schedule for measuring performance
- Even though the actual grant will not be made until May 2012, the grant’s applicable performance period will begin on October 1, 2011. Under rules governing Section 162(m) of the Internal Revenue Code, the performance target for the applicable grant must be approved by the plan’s governing authority (i.e., the HR Committee) within the first 90 days of the performance period

Performance Schedule for Grant Covering FY 2012-2014 Performance Period		
Performance Level	Cumulative 3-Yr EPS	Shares Earned
Below Threshold	Less than \$7.15	0%
Threshold	\$7.15	50%
Target	\$7.41	100%
Maximum	\$7.67	150%

Footnotes:

1. Target \$7.41 cumulative 3-year EPS equates to 5% EPS growth above \$2.35 target for fiscal years 2013 and 2014, respectively (\$2.35 – 2012; \$2.47 – 2013; \$2.59 – 2014).
2. Threshold level of performance equates to 3.5% discount to targeted EPS of \$7.41
3. Maximum level of performance of 3-year EPS equates to 3.5% increase above targeted level EPS of \$7.41 to maximum of \$7.67.
4. For performance levels between stated criteria, straight line interpolation would be used.

Addendum



Management Incentive Plan (MIP) FY 2012 Guidelines

- Incentive awards will be based on each participant's "**Eligible Earnings**" during the fiscal year using the same definition of earnings as the Pension Account and Retirement Savings Plans; however, it will not be limited by the IRS mandates for qualified plans.
- Each participant has an "**Incentive Target**" based on his/her pay grade.
- Performance targets for the plan are set by the Board of Directors and tied to annual profitability goals expressed as Earnings per Share (EPS).
- Incentive awards will not be paid if Company performance is below the established threshold EPS level.
- When threshold EPS is met or exceeded, a "**Payout Percentage**" is determined using the assigned plan payout matrix with straight line interpolation applied to determining payout levels between threshold, target and maximum levels.
- When a participant works a full fiscal year, the incentive payment will be computed by multiplying their **Eligible Earnings** by their **Incentive Target** times the **Payout Percentage**.
- An MIP participant who completes the performance period but terminates employment prior to the payment date will receive an incentive award, even though the participant is not an active employee at the time awards are granted by the Board.



Management Incentive Plan (MIP) FY 2012 Guidelines

- The following guidelines apply to employment status changes:
 - Participants who transfer to a job with a higher Incentive Target will be eligible for an incentive award computed under the higher Incentive Target.
 - Participants who transfer to a job with a lower Incentive Target will have their incentive award determined by a proration of the time spent during the fiscal year under each Incentive Target.
 - Participants who transfer from Atmos Energy Corporation to Atmos Energy Holdings or vice versa will receive a combined award under each incentive structure based on Eligible Earnings in each structure.
 - Time spent on Military Leave counts as time worked for computing incentive awards.
- Participants who terminate employment prior to the end of the performance period will not be eligible for an incentive award unless the termination is covered by one of the following:
 - **Retirement** - A participant who retires during the fiscal year, upon completing at least ten years of continuous service after the attainment of age 45, will receive an incentive award based on Eligible Earnings in the performance period.
 - **Disability** - An employee who becomes disabled and qualifies for Long-Term Disability benefits will receive an incentive award based on Eligible Earnings in the fiscal year to the date the employee is no longer able to work. This date is the beginning of the Elimination Period as defined by the Long-Term Disability Insurance Plan.
 - **Death** - An incentive award will be paid to the deceased's estate based on the participant's Eligible Earnings as if they worked for the entire performance period.

Addendum



Management Incentive Plan (MIP) FY 2012 Guidelines

- Incentive awards will be based on each participant's "**Eligible Earnings**" during the fiscal year using the same definition of earnings as the Pension Account and Retirement Savings Plans; however, it will not be limited by the IRS mandates for qualified plans.
- Each participant has an "**Incentive Target**" based on his/her pay grade.
- Performance targets for the plan are set by the Board of Directors and tied to annual profitability goals expressed as Earnings per Share (EPS).
- Incentive awards will not be paid if Company performance is below the established threshold EPS level.
- When threshold EPS is met or exceeded, a "**Payout Percentage**" is determined using the assigned plan payout matrix with straight line interpolation applied to determining payout levels between threshold, target and maximum levels.
- When a participant works a full fiscal year, the incentive payment will be computed by multiplying their **Eligible Earnings** by their **Incentive Target** times the **Payout Percentage**.
- An MIP participant who completes the performance period but terminates employment prior to the payment date will receive an incentive award, even though the participant is not an active employee at the time awards are granted by the Board.



Management Incentive Plan (MIP) FY 2012 Guidelines

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Atmos Energy Corporation
 Subaccount 07452 - Variable Pay & Mgmt Incentive Plans
 For the Fiscal Year ended September 30, 2013

Company	Division	Account	Account Description	Sub Account	Sub Account Description	Fiscal 2013	
010	002	9260	A&G-Employee pensions and t	07452	Variable Pay & Mgmt Incentiv	#####	Gross
						#####	Capitalized OH
						7,715,289	Net Expense
						<u>315,644</u>	Net Expense Allocated to KS (based on FY13 Alloc Factor)
010	012	9260	A&G-Employee pensions and t	07452	Variable Pay & Mgmt Incentiv	6,473	Gross
						(4,269)	Capitalized OH
						2,205	Net Expense
						<u>94</u>	Net Expense Allocated to KS (based on FY13 Alloc Factor)
060	030	9260	A&G-Employee pensions and t	07452	Variable Pay & Mgmt Incentiv	1,225,126	Gross
060	030	9260	A&G-Employee pensions and t	07454	VPP & MIP - Capital Credit	(662,479)	Capitalized
						562,647	Net Expense
						<u>323,297</u>	Net Expense Allocated to KS (based on FY13 Alloc Factor)
Total Fiscal 2013 VPP/MIP Expense for Kansas						<u>639,035</u>	

Footnote: Both the Variable Pay Plan (VPP) and Management Incentive Plan (MIP) are recorded to subaccount 07452. The amounts are not separated in the GL.

Docket No. 14-ATMG-320-RTS
Atmos Energy Corporation, Kansas Division
Staff DR Set No. 1
Question No. 1-131
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REQUEST:

Article 2 of the Plan document lists Stock Appreciation Rights and Bonus Stock as awards the Long Term Incentive Plan can grant.

1. a. Did the Plan issue any Stock Appreciation Rights during the Test Year?
 - b. If yes, what performance measurement was used to determine the Stock Appreciation Rights?
2. a. Did the Plan issue any Bonus Stock during the Test Year?
 - b. If yes, what performance measurement was used to determine the amount of Bonus Stock?
3. What performance measurement was used to determine Restricted Stock and Restricted Stock Units awarded during the Test Year?
4. Please provide the cost of the Long Term Incentive Plan included in the Test Year broken out by division.

RESPONSE:

1. No, the Company did not issue any Stock Appreciation Rights.
2. Yes, the Company issued Bonus Stock. Please see Attachment 1 to the Company's response to Staff DR No. 1-129, which provides the Company's Performance Goals for FY 2012 Incentive Plans, including Bonus Stock.
3. Please see the Company's response to Staff DR No. 1-129.
4. Please see Attachment 1.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, Staff_1-131_Att1 - FY13 Restricted Stock.xlsx, 1 Page.

Respondents: Bart Armstrong and Jason Schneider

Atmos Energy Corporation
 Restricted Stock Expense (LTIP)
 For the Fiscal Year ended September 30, 2013

Company	Div	Account	Account Description	Sub Account	Sub Account Description	Fiscal 2013	
010	002	9260	A&G-Employee pensions and benefits	07458	Restricted Stock - Long Term Incentive Plan - Performance Based	5,843,418	
010	002	9260	A&G-Employee pensions and benefits	07460	RSU-Long Term Incentive Plan - Time Lapse	3,353,327	
010	002	9260	A&G-Employee pensions and benefits	07463	RSU-Management Incentive Plan	591,541	
						<u>9,788,287</u>	Net Expense
						#####	Capitalized OH
						<u>5,190,209</u>	Net Expense
						<u>212,339</u>	Net Expense Allocated to KS (based on FY13 Alloc Factor)
010	012	9260	A&G-Employee pensions and benefits	07458	Restricted Stock - Long Term Incentive Plan - Performance Based	300,505	
010	012	9260	A&G-Employee pensions and benefits	07460	RSU-Long Term Incentive Plan - Time Lapse	159,221	
010	012	9260	A&G-Employee pensions and benefits	07463	RSU-Management Incentive Plan	52,092	
						<u>511,818</u>	Net Expense
						<u>(151,442)</u>	Capitalized OH
						<u>360,376</u>	Net Expense
						<u>15,312</u>	Net Expense Allocated to KS (based on FY13 Alloc Factor)
060	030	9260	A&G-Employee pensions and benefits	07458	Restricted Stock - Long Term Incentive Plan - Performance Based	274,636	
060	030	9260	A&G-Employee pensions and benefits	07460	RSU-Long Term Incentive Plan - Time Lapse	121,920	
060	030	9260	A&G-Employee pensions and benefits	07463	RSU-Management Incentive Plan	26,964	
060	030	9260	A&G-Employee pensions and benefits	07450	Capitalized Restricted Stock	(231,970)	
						<u>191,550</u>	Net Expense
						<u>110,065</u>	Net Expense Allocated to KS (based on FY13 Alloc Factor)
Total Fiscal 2013 Restricted Stock Expense for Kansas						<u>337,716</u>	

CERTIFICATE OF SERVICE

14-ATMG-320-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 20th day of May, 2014, to the following parties:

SAMUAL FEATHER, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
s.feather@kcc.ks.gov

MICHAEL NEELEY, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
m.neeley@kcc.ks.gov

JAY VAN BLARICUM, ADVISORY COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
j.vanblaricum@kcc.ks.gov

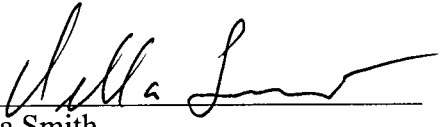
JAMES G. FLAHERTY
ANDERSON & BYRD, LLP
216 SOUTH HICKORY
PO BOX 17
OTTAWA, KANSAS 66067
jflaherty@andersonbyrd.com

DOUGLAS C. WALTHER, ASSOCIATE GENERAL COUNSEL
ATMOS ENERGY
PO BOX 650205
DALLAS, TX 75265-0205
Douglas.Walther@AtmosEnergy.com

JAMES PRICE, ATTORNEY
ATMOS ENERGY
PO BOX 650205
DALLAS, TX 75265-0205
James.Price@AtmosEnergy.com

KAREN P. WILKES, DIVISION VP,
REGULATORY & PUBLIC AFFAIRS
ATMOS ENERGY
1555 BLAKE STREET, SUITE 400
DENVER, COLORADO 80202
Karen.Wilkes@AtmosEnergy.com

BARTON W. ARMSTRONG, VP OPERATIONS
ATMOS ENERGY
25090 W 110TH TERR
OLATHE, KS 66061
Bart.Armstrong@AtmosEnergy.com



Della Smith
Administrative Specialist