

Background

On or about December 17, 2004, Atmos Energy Corp., Mid-Tex Division, (the "Company") filed with the City of College Station, Texas ("City"), a request pursuant to Texas Utilities Code § 104.301 for an annual GRIP rate increase for customers on the Company's statewide gas utility system to be effective February 15, 2005. The City has initial jurisdiction over such matters and timely acted to suspend the effective date of Atmos' proposed rate increase. The Gas Utility Regulatory Act grants local regulatory authorities the right to intervene in rate proceedings filed at the Commission and it is reasonable for the City of College Station to cooperate with other cities in a coalition of cities in opposition to the Company's filing at the Railroad Commission ("Commission"), said coalition being known as Atmos Cities Steering Committee ("ACSC"), in any appeal of the cities' actions to the Commission.

Information provided by the Company in response to ACSC's requests for information indicates that the Company actually decreased per-customer investment in infrastructure during calendar year 2003 and the Company has publicly stated that it will receive substantial profits in 2005 over that approved by the Commission in GUD No. 9400. The Company's GRIP request fails to account for growth in numbers of customers, thereby undercounting the revenues it will receive from its proposed GRIP rate increase and the Company's GRIP request fails to recognize that GUD No. 9400 rates included profit based on TXU Corporation's capital structure rather than Atmos Energy Corporation's current capital structure, which justifies a lower rate of return.

Counsel for ACSC, upon review of the Company's filing and upon consultation with various consultants, recommends finding that the Company's proposal is unjustified, unreasonable and is not in compliance with the GRIP statute (Texas Utilities Code § 104.301) either in fact or in law. In consideration of the city taking action before August 12, 2005, on the currently pending GRIP request, the Company has agreed not to file any additional GRIP requests before September 15, 2005