

## AGREEMENT REGARDING EARNINGS

THIS AGREEMENT REGARDING EARNINGS ("Agreement"), dated this 31<sup>st</sup> day of August 2007 (the "Effective Date"), is entered into by and between Atmos Energy Corporation, a Texas and Virginia corporation ("Atmos"), the Colorado Office of Consumer Counsel ("OCC") and the Staff of the Public Utilities Commission of the State of Colorado ("Staff"). Atmos, the OCC and Staff are referred to herein individually as a "Party" and collectively as the "Parties."

WHEREAS, in the course of the OCC's review of Atmos' earnings for 2006 from its regulated Colorado public utility operations, the OCC became concerned that Atmos was experiencing a level of earnings that exceeded its Colorado Public Utilities Commission ("Commission" or "CPUC") approved rate of return. The OCC was further concerned that such earnings level had continued over a sufficiently long period of time so as not to constitute an aberration; and,

WHEREAS, based on those concerns, the OCC contacted Atmos in order to discuss what, if any, steps might be taken to address the OCC's concerns; and,

WHEREAS, thereafter, the OCC and Atmos sought input from Staff in order to facilitate more inclusive discussions on the OCC's concerns; and,

WHEREAS, Staff's participation in the discussions allowed full and comprehensive consideration of the OCC's concerns as well as addressing technical regulatory implications of their concerns; and,

WHEREAS, In recognition of the fact that Atmos' earnings from its regulated Colorado public utility operations during calendar year 2006 has exceeded Atmos' authorized rate of return, the Parties have agreed upon terms and conditions whereby Atmos will credit a portion of such excess earnings to Atmos' customers. In addition, the Parties have agreed upon a method pursuant to which a portion of excess earnings, as defined below, if any, attributable to calendar year 2007 will be credited to customers.

NOW THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

### 1. TREATMENT OF 2006 EARNINGS.

A. In recognition of the fact that Atmos' earnings from its regulated Colorado public utility operations exceeded Atmos' authorized rate of return on equity of 11.25% and rate of return on rate base of 8.95% in calendar year 2006 (as demonstrated in Atmos' annual report to the CPUC), Atmos agrees, on a one-time basis, to credit to its qualifying customers (as determined in accordance with Section 1F below) the total amount of \$1,100,000 (less 12 percent, or \$132,000, to be donated by Atmos to Energy Outreach Colorado on or before January 31, 2008), with such one-time credit being implemented pursuant to the terms of this Agreement.

B. The Parties agree that the amount of the credit to be applied to individual qualifying customers' bills shall be derived by dividing \$968,000 (\$1,100,000, less \$132,000 Energy Outreach contribution, plus accrued interest as discussed in Section 1D below) by the average of the January 2006 and the January 2007 actual total customer usage (measured in ccfs) as used by Atmos' customers.

C. In order that qualifying customers might receive the benefit of the agreed-upon one-time credit at a point during the heating season when gas bills are generally at or near their highest, the Parties agree that Atmos shall credit this amount to such customers' bills during the month of January 2008. Atmos represents that it should be able to apply the full amount of the agreed-upon credit during the month of January, 2008. However, the Parties agree to handle any excess/shortage as described in Section 1E below.

D. In recognition of the fact that the agreed-upon one-time credit will not be commenced until January 2008, Atmos agrees that the credit amount shall accrue interest at the applicable customer deposit rate of interest as established by the CPUC and in effect commencing on the Effective Date of this Agreement and continuing through January 15, 2008, which date is the anticipated mid-point of the period over which the agreed-upon credit amount is to be reflected on customers' bills.

E. The Parties agree that in the event the one-time credit amount of \$968,000, plus accrued interest, is not fully reflected on qualifying customers' bills pursuant to the terms of this Agreement during the month of January 2008, any difference between the agreed-upon credit amount, plus accrued interest, and the amount actually credited to such customers' bills will be credited (if under-credited on customers' bills) or debited (if over-credited on customers' bills) to the applicable Account 191 sub-account for each applicable rate division during the month of March 2008.

F. The Parties agree that for the purpose of this Section 1, the term "qualifying customers" shall include only those Atmos customers that were taking service from Atmos on January 1, 2008 and that continue to take service from Atmos during the period over which the agreed-upon bill credit is reflected on customers' bills.

## 2. TREATMENT OF 2007 EARNINGS.

A. The Parties agree that there shall be a sharing of excess earnings for calendar year 2007, if there be any such excess earnings, according to the sharing percentages set forth on Schedule 2, attached hereto and incorporated herein, and that the level of any such excess earnings shall be determined by assuming a return on equity for Atmos of 10.25 percent. Atmos shall determine whether any such excess earnings exist for calendar year 2007 by applying the same methodology that Atmos used to report calendar year 2006 earnings to the CPUC as set forth in Atmos' annual report to the CPUC filed on April 30, 2007. For illustrative purposes only, Schedule 1, attached hereto and incorporated herein, sets forth a sample calculation that the Parties agree Atmos will follow

when calculating its 2007 regulated Colorado public utility earnings for the purposes of this Agreement. Atmos agrees that it shall notify the OCC and Staff of Atmos' calendar year 2007 earnings for its regulated Colorado public utility operations concurrently with the filing by Atmos of its annual report to the CPUC to be filed in April 2008 and shall provide sufficient detail information to the OCC and Staff so as to allow those parties to verify and confirm that the calculation of earnings has been made in accordance with the terms of this Agreement. The Parties note that the source for the amounts utilized in the calculation of earnings can be verified by comparing the totals for all rate divisions to the amounts reported in Atmos' annual report to the CPUC for calendar year 2007 Appendix A, Item 1, Page 1 of 1 (rate base items) and Page 2 of 2 (cost of service and capitalization items).

B. The Parties agree that the customers' share of any such excess earnings shall be reduced by 12 percent and that Atmos shall make a contribution in that amount to Energy Outreach Colorado, which contribution shall be made on or before July 31, 2008. The Parties further agree that to the extent the customers' resulting share (i.e. after being reduced by the amount of the Energy Outreach contribution) of any such excess earnings is greater than \$100,000, the resulting share of any such excess earnings shall be returned by means of bill credit to qualifying customers, which Atmos shall initiate no later than July 1, 2008. In the event the resulting share of such excess earnings is \$100,000 or less, the resulting share shall be credited to the applicable Account 191 sub-account for each applicable rate division during the month of July 2008. The Parties further agree that such credit (whether returned via bill credit or credit to Account No. 191) shall be derived in a manner consistent with the provisions of Section No. 1(B) above, except that Atmos shall use the actual July 2008 customer usage rather than the average of January 2006 and January 2007 actual usage as is otherwise required by Section No. 1(B) above. For purposes of this Section 2, the term "qualifying customers" shall include only those customers that were taking service from Atmos on July 1, 2008 and that continue to take service from Atmos during the period over which the agreed upon bill credit is reflected on customers' bills.

C. Interest shall accrue on the customers' share of any such excess earnings at the applicable customer deposit rate of interest as established by the CPUC and in effect commencing on January 1, 2008 and continuing through July 15, 2008, which date is the anticipated mid-point of the period over which any 2007 excess earnings will be returned to customers via a bill credit.

D. In the event there should be any excess 2007 earnings available for sharing with customers pursuant to this Agreement, the Parties recognize that it is very unlikely that any such excess earnings, plus accrued interest, will have been fully reflected on qualifying customers' bills pursuant to the terms of this Agreement on or before July 31, 2008. As a result, the Parties agree that any difference between the agreed-upon credit amount, plus accrued interest, and the amount actually credited to such customers' bills will be credited (if under-credited on customers' bills) or debited (if over-credited on customers' bills) to the applicable Account 191 sub-account for each applicable rate division during the month of September 2008.

3. TERM.

This Agreement shall commence from and after the Effective Date set forth above and shall remain in full force until the date on which Atmos shall have provided a certification to the OCC and Staff that Atmos has: 1) fully refunded the agreed-upon one-time refund amount of \$968,000, plus associated accrued interest; 2) fully refunded the appropriate share of any excess earnings, plus accrued interest, relative to calendar year 2007; and 3) made the contributions to Energy Outreach Colorado in the agreed upon amounts as provided in Sections 1A and 2A of this Agreement.

4. MISCELLANEOUS.

A. Nothing herein shall limit or restrict Atmos' right to file a rate case, nor shall it limit or restrict the OCC and/or Staff's right to file a complaint or seek the issuance of a show cause order from the Commission, on a prospective basis. However, in the event that any such action is commenced by the OCC or Staff prior to January 1, 2008, Atmos is not obligated to refund the excess earnings as agreed to in Section 1, Treatment of 2006 Earnings, or Section 2, Treatment of 2007 Earnings. In the event that any such action is commenced by the OCC or Staff after January 1, 2008 and prior to August 1, 2008, Atmos is obligated to refund the excess earnings as agreed to in Section 1, Treatment of 2006 Earnings, but not Section 2, Treatment of 2007 Earnings.

B. The agreement of the Parties on issues addressed in this Agreement shall not prejudice or otherwise limit the position that any Party may take in any other proceeding, except to the extent such proceeding relates to the terms of this Agreement.

C. The Parties pledge their full and complete support to this Agreement and each agrees to proceed in good faith with reasonable best efforts to obtain Commission approval of this Agreement and to do all that is reasonably necessary to obtain such approval, including, but not limited to, introducing evidence and testimony in support of this Agreement, appearing at all hearings and filing all necessary pleadings and documents.

D. This Agreement shall not become effective until the issuance of a final Commission order approving the Agreement, which order does not contain any modification of the terms and conditions of this Agreement that is unacceptable to the Parties. In the event the Commission modifies this Agreement in a manner unacceptable to any Party, that Party shall have the right to withdraw from this Agreement, whereupon this Agreement shall be and become null and void. The withdrawing Party shall notify the other parties hereto in writing within ten (10) days of the date of the Commission order that the Party is withdrawing from the Agreement.


E. In the event that this Agreement is not approved, or is approved with conditions that are unacceptable to any Party who subsequently withdraws, the negotiations and discussions undertaken in conjunction with the Agreement shall be deemed to be confidential and shall not be admissible into evidence in

the proceeding wherein the Agreement is submitted to the Commission for approval or any other proceeding.


F. This Stipulation may be executed in counterparts and by facsimile copies of signatures, all of which when taken together shall constitute the entire agreement between the Parties with respect to the issues addressed by this Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first above written.

ATMOS ENERGY CORPORATION

By:   
Name: Gary L. Schlessman  
Title: President, Colorado-Kansas Division

COLORADO OFFICE OF CONSUMER COUNSEL

By:   
Name: P.B. Schechter  
Title: Rate/Financial Analyst

STAFF OF THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

By:   
Name: Karl Kunzie  
Title: Financial Analyst

Schedule 1  
Sheet 1 of 1

Atmos Enery Corp. - Colorado Service Areas  
**Revenue Requirement and Revenue Deficiency Calculation**  
Twelve Months Ended December 31, 2006

Line No.	Description (a)	Total (b)
1	Cost of Gas (normalized & adjusted)	\$87,143,162
2		
3	Operation & Maintenance Expense	13,348,800
4		
5	Depreciation & Amortization Expense	5,321,180
6		
7	Taxes Other Than Income Taxes	1,898,379
8		
9	Income Tax	<u>3,188,884</u>
10		
11	Total Cost of Service	110,900,405
12		
13		
14	Revenue at Present Rates (normalized)	<u>118,463,374</u>
15		
16	Pro forma Net Income	<u>\$7,562,969</u>
17		
18	Total Average Rate Base	\$81,208,057
19		
20	Equity Capital Percentage	46.18%
21		
22	Long-term debt cost (debt cost x cap struc %)	3.25%
23		
24	Composite tax rate	38.01%
25		
26	Total Average Common Equity	\$37,501,881
27		
28	Return on Equity	13.13%
29		
30	Return on Equity for Calc. Purposes	10.25%
31		
32	Percent of Equity Deficient (sufficient)	-2.88%
33		
34	Rev Deficiency(sufficiency) before Inc Tax	(1,079,765)
35		
36	Income Taxes	<u>(662,073)</u>
37		
38	100% Excess (Deficiency)	<u>(\$1,741,838)</u>
39		
40	65% Customer <sup>See Note 2</sup>	<u>(\$1,132,194)</u>
41	35% Atmos <sup>See Note 2</sup>	<u>(\$609,644)</u>
42		

43 Note 1: The calculations set forth in this Schedule 1 are pursuant to the Earnings  
44 Agreement and are based on the Appendix A, Item 1 Page 1 of 1 (rate  
45 base items ) and Page 2 of 2 (cost of service and capitalization items).  
46 Note 2: Customer & Atmos split will be based on Final 2007 Annual Report.  
47

**SCHEDULE 2**  
**SHARING PERCENTAGES**

Measured ROE	Customers	Company
>10.25%≤11.25%	25%	75%
>11.25%≤12.25%	50%	50%
>12.25%≤13.25%	65%	35%
>13.25%	75%	25%