

AGREEMENT REGARDING EARNINGS

THIS AGREEMENT REGARDING EARNINGS ("Agreement"), dated this 12th day of July 2004 (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 2002 and 2003 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 to varying degrees. The OCC was further concerned that such earnings levels 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 the Commission Staff in order to facilitate more inclusive discussions on the OCC's concerns; and,

WHEREAS, the Commission 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 years 2002 and 2003 have exceeded Atmos' authorized rate of return to varying degrees, 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 excess earnings, as defined below, if any, attributable to calendar year 2004 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 2002 AND 2003 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% to varying degrees in calendar years 2002 and 2003 (as demonstrated in Atmos' annual report to the CPUC for those respective years), 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 \$1,850,000 (less 12 percent, or \$222,000, to be donated by

Atmos to Energy Outreach Colorado on or before January 31, 2005), 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 \$1,628,000 (plus accrued interest as discussed in Section 1 D below) by the average of the January 2003 and the January 2004 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 2005. Atmos represents that it should be able to apply the full amount of the agreed-upon credit during the month of January, 2005. 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 2005, 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, 2005, 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 \$1,628,000, plus accrued interest, is not fully reflected on qualifying customers' bills pursuant to the terms of this Agreement during the month of January 2005, 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 2005.

F. The Parties acknowledge that Atmos acquired the natural gas distribution facilities and customers of ComFurT Gas, Inc. ("ComFurT") on February 27, 2004. Given that the ComFurT customers were not part of the Atmos systems during 2002 or 2003, the Parties acknowledge and agree that the former ComFurT customers shall not be deemed to be a "qualified customer," as that term is used in this Section 1 of the Agreement. The Parties further agree that for the purpose of this Section 1, the term "qualifying customers" shall include only those Atmos (i.e. non-ComFurT) customers that were taking service from Atmos on January 1, 2005 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 2004 EARNINGS.

A. The Parties agree that there shall be a 50/50 sharing of excess earnings for calendar year 2004, if there be any such excess earnings, and that the level of any such excess earnings shall be determined by assuming a return

on equity for Atmos of 10.75 percent. Atmos shall determine whether any such excess earnings exist for calendar year 2004 by applying the same methodology that Atmos used to report calendar year 2003 earnings to the CPUC as set forth in Atmos' annual report to the CPUC filed on April 30, 2004. 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 2004 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 2004 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 2005 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 2004 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, 2005. The Parties further agree that 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, 2005. The Parties further agree that such credit shall be derived in a manner consistent with the provisions of Section No. 1(B) above, except that Atmos shall use the actual July 2004 customer usage rather than the average of the January 2003 and the January 2004 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, 2005 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, 2005 and continuing through July 15, 2005, which date is the anticipated mid-point of the period over which any 2004 excess earnings will be returned to customers via a bill credit.

D. In the event there should be any excess 2004 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, 2005. 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 2005.

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 \$1,628,000, plus associated accrued interest; 2) fully refunded the appropriate share of any excess earnings, plus accrued interest, relative to calendar year 2004; 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 in 2004, Atmos is only obligated to refund the excess earnings set forth in Section 1, Treatment of 2002 and 2003 Earnings. In the event that any such action is commenced by the OCC or Staff in 2005, Atmos is obligated to refund the excess earnings set forth in Section 1, Treatment of 2002 and 2003 Earnings, and Section 2, Treatment of 2004 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.

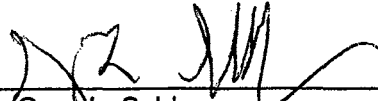
D. This Agreement shall not become effective until the issuance of a final Commission order approving the Agreement, which order does not contain any modification of the terms and conditions of this Agreement that is unacceptable to the Parties. In the event the Commission modifies this Agreement in 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 or 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.

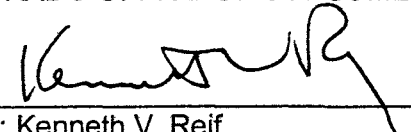
F. This Stipulation may be executed in counterparts and by facsimile copies of signatures, all of which when taken together shall constitute the entire agreement between the Parties with respect to the issues addressed by this Agreement.

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

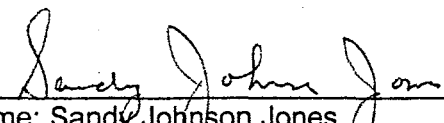
ATMOS ENERGY CORPORATION

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

COLORADO OFFICE OF CONSUMER COUNSEL

By: 
Name: Kenneth V. Reif
Title: Director

STAFF OF THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

By: 
Name: Sandy Johnson Jones
Title: Financial Analyst

Schedule 1
Sheet 1 of 1

Atmos Energy Corp. - Colorado Service Areas
Revenue Requirement and Revenue Deficiency Calculation
Twelve Months Ended December 31, 2004

Line No.	Description	Northeast	Northwest	Southeast	Southwest	Total
	(a)	(b)	(c)	(e)	(d)	(f)
1	Cost of Gas (normalized & adjusted)	\$30,752,412	\$18,014,321	\$14,253,581	\$9,918,169	\$72,938,482
2						
3	Operation & Maintenance Expense	4,244,314	2,340,778	2,801,223	1,843,065	11,229,380
4						
5	Depreciation & Amortization Expense	2,112,965	1,104,892	590,354	811,591	4,619,802
6						
7	Taxes Other Than Income Taxes	656,839	353,344	403,232	274,769	1,688,185
8						
9	Income Tax	1,331,639	941,247	910,077	692,358	3,875,321
10						
11	Total Cost of Service	39,098,169	22,754,583	18,958,467	13,539,952	94,351,170
12						
13						
14	Revenue at Present Rates (normalized)	42,147,500	24,724,371	20,761,285	15,016,361	102,649,517
15						
16	Pro forma Net Income	\$3,049,331	\$1,969,789	\$1,802,818	\$1,476,409	\$8,298,347
17						
18	Total Average Rate Base	\$ 33,344,336	\$ 16,822,373	\$ 14,299,787	\$ 13,420,602	\$77,887,098
19						
20	Equity Capital Percentage	48.89%	48.89%	48.89%	48.89%	48.89%
21						
22	Long-term debt cost (debt cost x cap struc %)	3.62%	3.62%	3.62%	3.62%	3.62%
23						
24	Composite tax rate	38.01%	38.01%	38.01%	38.01%	38.01%
25						
26	Total Average Common Equity	\$16,302,046	\$8,224,458	\$6,991,166	\$6,561,332	\$38,079,002
27						
28	Return on Equity	11.30%	16.55%	18.38%	15.10%	14.39%
29						
30	Return on Equity for Calc. Purposes	10.75%	10.75%	10.75%	10.75%	10.75%
31						
32	Percent of Equity Deficient (sufficient)	-0.55%	-5.80%	-7.63%	-4.35%	-3.64%
33						
34	Rev Deficiency(sufficiency) before Inc Tax	(89,796)	(476,689)	(533,615)	(285,240)	(1,385,340)
35						
36	Income Taxes	(55,060)	(292,288)	(327,193)	(174,899)	(849,440)
37						
38	Total Revenue Deficiency (sufficiency)	(\$144,856)	(\$768,977)	(\$860,808)	(\$460,139)	(\$2,234,780)
39						
40	50% of Revenue Deficiency (sufficiency)	(\$72,428)	(\$384,489)	(\$430,404)	(\$230,070)	(\$1,117,391)
41						

42 Note: The calculations set forth in this Schedule 1 are intended to be sample calculations and have been prepared for informational
43 purposes only pursuant to Section 2A of the July 2004 Earnings Agreement by and among Atmos Energy, the Colorado
44 Office of Consumer Counsel and the Staff of the Public Utilities Commission of the State of Colorado. The source for the
45 amounts utilized in the calculation of earnings can be verified by comparing the totals for all rate divisions to the amounts
46 reported in Atmos' annual report to the CPUC for calendar year 2003, Appendix A, Item 1, Page 1 of 1 (rate base items)
47 and Page 2 of 2 (cost of service and capitalization items).