

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Atmos)	
Energy Corporation for an Order)	Case No. GM-2004-0607
Authorizing it to Acquire the Business of)	
TXU Gas Company.)	

UNANIMOUS STIPULATION AND AGREEMENT

I. Procedural History

On June 18, 2004, Atmos Energy Corporation (Atmos or Company) filed an Application with the Missouri Public Service Commission (Commission) for authority to acquire the assets and business of TXU Gas Company, and to take all other actions reasonably necessary to effectuate said transaction (Transaction). At the same time, Atmos filed with the Commission its Motion for Expedited Treatment requesting approval no later than September 30, 2004, if possible.

On July 16, 2004, the Commission issued its Order directing the Commission Staff (Staff) to file a pleading stating when it will file its recommendation concerning the application.

On July 26, 2004, the Staff filed its Response to Order Directing Filing which requested that the Commission issue an Order setting a Prehearing Conference and further stated that the Staff believes it can file a Staff Recommendation no later than September 15, 2004.

On July 29, 2004, the Commission issued its Order Setting Prehearing Conference, which scheduled a prehearing conference for August 19, 2004. A prehearing conference was held on August 19, 2004, as scheduled.

The Parties have engaged in various discovery and discussions, and as a consequence, the signatory Parties have reached the following agreements which are set forth in this Unanimous

Stipulation and Agreement, and which dispose of all issues in this case with respect to the signatory Parties.

II. APPROVAL OF THE TRANSACTION

The Parties agree that the Commission should issue its order, subject to the conditions contained herein, authorizing Atmos to acquire the assets and business of TXU Gas Company, pursuant to the June 17, 2004 Agreement and Plan of Merger contained in Appendix 1 of the Application (Agreement). The parties also urge the Commission to issue its order approving the Transaction and this Unanimous Stipulation and Agreement at its earliest opportunity so as to be effective by October 1, 2004, if possible. The basis for the requested effective date is explained in the Motion for Expedited Treatment filed on June 18, 2004. In the event the Transaction is not closed, this Unanimous Stipulation and Agreement shall be void and no party shall be bound by any of the agreements or provisions hereof.

III. CONDITIONS OF APPROVAL

1. ACQUISITION PREMIUM

The amount of any asserted acquisition premium (i.e. the amount of the total purchase price and transaction costs above net book value, asserted by Atmos to be \$533,500,000) paid by Atmos in connection with the Transaction shall be treated below the line for ratemaking purposes in Missouri and not recovered in retail distribution rates. Atmos shall not seek either direct or indirect rate recovery or recognition of any acquisition premium, including transaction costs, through any purported acquisition savings adjustment (or similar adjustment) in any future general ratemaking proceeding in Missouri. Other Parties to any such proceeding will not be precluded from opposing rate recovery of such costs, regardless of any asserted acquisition savings. In addition, Atmos shall not seek to recover in Missouri the amount of any asserted

acquisition premium in the Transaction as being a “stranded cost” regardless of the terms of any legislation permitting the recovery of stranded cost from Missouri ratepayers.

2. SEVERANCE AGREEMENTS AND RETAINED LIABILITIES

The amount of any employee severance benefits made pursuant to Section 7.05(g) of the Agreement shall be treated below the line for ratemaking purposes in Missouri and not recovered in retail distribution rates in Missouri. Atmos agrees to segregate all costs related to any employee severance payments made as a result of the TXU Gas acquisition. All amounts paid as a severance payment to an Atmos or former TXU Gas employee will not be subject to allocation for cost recovery in any rate case filed in Missouri. Atmos will keep separate accounting records for severance payments which can be audited in the next Missouri rate case for compliance with this agreement. In addition, the amount of any liabilities retained by Atmos known at closing or resulting in the future from TXU Properties, including but not limited to Section 5.09 (Environmental Matters), Section 9.02 (Environmental Liabilities and Costs) and Section 9.03 (Other Limitations) of the Agreement shall be treated below the line for ratemaking purposes in Missouri and not recovered in retail distribution rates in Missouri.

3. JOINT AND COMMON COST ALLOCATIONS

A. Atmos agrees that, for purposes of setting retail rates in its next general rate case in Missouri, total joint and common costs allocated to Missouri from Atmos shared services will not exceed \$2.67 million. This amount represents the average of the joint and common costs allocable to Atmos' Missouri operations from shared services in 2002 and 2003. Atmos agrees to make available to the Staff and the Public Counsel, at reasonable times and places, all books and records and employees and officers of Atmos Energy Corporation and any affiliate, division or subsidiary of Atmos Energy Corporation as provided under applicable law and Commission

rules. Atmos agrees that, in any Atmos-initiated general rate proceeding, it has the burden of proving the reasonableness of any allocated or assigned cost to the Missouri operations of Atmos.

B. Atmos shall maintain its books and records so that all acquisition costs (including the Transaction and future Atmos merger and acquisition transactions) are segregated and recorded separately. During Atmos's next general rate proceeding, Atmos agrees to disclose to the Staff, Public Counsel, and other interested parties subject to a Commission protective order acquisition, merger, transition, and transaction costs recorded in Atmos's books and records in the appropriate test year. Upon request by the Staff or Public Counsel, Atmos also agrees to disclose this information as it relates to affiliated transactions and allocation factors to be included in its annual report to the Commission as required by the Affiliated Transactions Rules. This condition does not restrict Atmos's right to seek rate recovery of merger and acquisition costs related to future transactions. Other parties to this proceeding may oppose recovery of merger and acquisition costs related to future transactions.

C. Atmos agrees to create and maintain records listing the names of Atmos employees, number of hours worked, type of work performed and travel and other expenses incurred for all work related to all merger and acquisition activities and specifically to TXU through the end of the test year, updated test year or true-up test year in Atmos's next general rate case. Upon request by the Staff or Public Counsel, Atmos also agrees to disclose this information as it relates to affiliated transactions and allocation factors reported annually to the Commission under the Affiliated Transactions Rules.

D. Atmos will specifically identify, as a part of its annual filing of the Cost Allocation Manual, the process used to allocate administrative and general (A&G) costs, merger

and acquisition, sale and non-regulated function expenses to its regulated divisions as well as its non-regulated subsidiaries. If Atmos decides not to retain merger and acquisition costs (including acquisition adjustments, transaction costs, transition costs and a reasonable allocation of corporate employee payroll and benefits) at the corporate level, it shall provide to the Staff and Public Counsel all the data in which to make a reasonable allocation of these costs to the corporate office cost center (i.e. retained at the corporate level).

E. Atmos agrees that the types and availability of raw data necessary to perform allocations of corporate overhead costs will include all data required to calculate the A&G allocations (e.g. an allocation factor based upon revenues will include the revenue amount of each entity and the cumulative revenues used to calculate the percentage to be allocated to each entity to which the factor is being applied) and the source of the data (e.g. financial statement for the fiscal year ending). The raw data to be discussed shall include, but not be limited to, regulated and non-regulated information concerning customer numbers and billing information, revenue data, asset information (gross and net plant, etc.), management work time allocations, employee numbers and other payroll data, and the Missouri jurisdictional rate of return on investment (ROR) and return on equity (ROE).

F. The allocation procedures shall include, but need not be limited to, the use of cost allocation manuals, timesheets, time studies, and/or other means of tracking and allocating costs. The allocation procedures shall provide a means to identify and substantiate the portions of each individual corporate employee's time and associated payroll cost being allocated to Atmos's regulated divisions as well as its non-regulated subsidiaries.

4. CUSTOMER SERVICE STANDARDS

A. Atmos Energy Corporation will continue its commitment to the customer service performance measures and customer service operating procedures originally agreed to by Atmos, Staff and the Public Counsel in GM-2000-312 (Atmos merger with Associated Natural Gas Company). In order to assist in making determinations regarding the level of service being provided to the customer, Atmos, Staff and Public Counsel established performance measures to measure some components of customer service for Atmos' post-merged Missouri customers, including former ANG customers. This Agreement also contained reporting requirements to enable the Staff and Public Counsel to monitor various other components of customer service following the closing of the Sale.

B. Atmos shall ensure that the data will continue to be provided to the Staff and Public Counsel as specified in GM-2000-315 and in GM-2002-295 (Atmos merger with Mississippi Valley Gas) with some exceptions as specified below. The later case extended the reporting period for which the Company would provide customer service measurements to Staff and Public Counsel.

C. Atmos, through its Mid-States' operating division, agrees to adhere to the customer service performance measures specified in Case Nos: GM-2000-312 and GM-2002-295. Atmos will provide monthly customer service data on a quarterly basis to the Staff, the data of which may be transmitted in an electronic format.

D. In addition to the customer service measurements specified in the Stipulation and Agreement in GM-2000-312, Atmos will provide the monthly number of calls offered (or calls received) by the Call Center and the specific monthly number of Call Center staff on a quarterly basis. Further, the Company agrees to respond to complaints/inquiries from Staff's Consumer

Services Department within three (3) business days, except for interruption of service issues, to which it will respond within twenty-four (24) hours or within one business day. Staff will cease providing quarterly complaint numbers to Atmos but will provide customer complaint numbers when requested by the Company.

E. The conditions in this Agreement do not represent Staff's approval of the present level of service being provided by Atmos to its Missouri customers. In addition, the service standards set in Case No. GM-2000-312, do not represent a high level of customer service and are simply a minimum acceptable level of service that should be provided to the customer. Atmos will also inform the Staff and Public Counsel of any plans to serve former TXU Gas customers from Atmos' Amarillo Call Center before such plans are implemented.

5. ADHERENCE TO MISSOURI RULES

Atmos shall comply with all Missouri Commission rules, including the Affiliated Transactions Rule, 4 CSR 240-40.015, reporting requirements and other practices, and its filed and approved tariffs. This paragraph 5 shall not be construed as a waiver of any rights or remedies available to Atmos under the law. No conditions or agreements entered into between parties to this case shall restrict or limit Atmos' compliance with Missouri Commission rules.

6. ASSUMPTION OF RISKS

Atmos agrees that it shall not include in its retail distribution rates charged to Missouri consumers any costs related to its execution risk of completing the purchase of the TXU Properties. Atmos accepts the risks of the costs associated with obtaining funds to be used to make the acquisition. Atmos represents that it has and shall continue to maintain the financial resources to protect Missouri consumers from the adverse consequences of these risks. The parties to this agreement are not requesting the Commission to approve the steps that Atmos will

use to implement this Transaction after the Commission approves the Transaction. Atmos understands that there are risks associated with closing this Transaction after it receives Commission approval. Atmos shall accept full responsibility of these risks. The acquisition and sources of the monies needed to close this Transaction are beyond the scope of what the Commission is being asked to approve in this case.

7. NO DETRIMENTAL IMPACT

Atmos agrees that this transaction will not have any detrimental effect on Atmos' Missouri utility customers, including, but not limited to, increased rates or any effect on quality of service, but agrees that, should such detrimental effects nevertheless occur, nothing in the approval or implementation of the proposed acquisition shall impair the Commission's ability to protect such customers from such detrimental effects.

8. COMMISSION AUTHORITY

Atmos agrees that the Commission has, and will continue to have, the authority after the proposed acquisition to regulate, through the lawful exercise of its statutory powers, and ensure the provision of service instrumentalities and facilities as shall be safe and adequate and in all respects just and reasonable and not jeopardize the ability of Atmos to meet its Missouri utility obligations. Atmos also agrees that the Commission has the authority, through the lawful exercise of its ratemaking powers, to ensure that the rates charged by Atmos for regulated utility service are not increased as a result of the unregulated and/or nonjurisdictional activities of Atmos' affiliates and Atmos agrees, consistent with such standard, that rates should not be increased due to such activities.

9. ACCESS TO INFORMATION

A. Atmos shall provide the Staff and Public Counsel with access, upon reasonable written notice during normal working hours and subject to appropriate confidentiality and discovery procedures, to all written information provided to common stock, bond, or bond rating analysts, which directly or indirectly pertains to Atmos or any affiliate that exercises influence or control over Atmos or has affiliate transactions with Atmos. Such information includes, but is not limited to, reports provided to, and presentations made to, common stock analysts and bond rating analysts. For purposes of this condition, "written" information includes but is not limited to, any written and printed material, audio and videotapes, computer disks and electronically stored information. Nothing in this condition shall be deemed to be a waiver of Atmos' right to seek protection of the information or to object, for purposes of submitting such information as evidence in any evidentiary proceeding, to the relevancy or use of such information by any party.

B. Upon request, Atmos agrees to make available to Staff and Public Counsel, upon written notice during normal working hours and subject to appropriate confidentiality and discovery procedures, all books, records and employees of Atmos and its affiliates as may be reasonably required to verify compliance the conditions set forth in this Unanimous Stipulation and Agreement. Atmos shall also provide Staff and Public Counsel any other such information (including access to employees) relevant to the Commission's ratemaking, financing, safety, quality of service and other regulatory authority over Atmos; provided that Atmos and any affiliate or subsidiary of Atmos shall have the right to object to such production of records or personnel on any basis under applicable law and Commission rules, excluding any objection that such records and personnel of affiliates or subsidiaries: (a) are not within the possession or control of Atmos; or (b) are either not relevant or are not subject to the Commission's

jurisdiction and statutory authority by virtue of, or as a result of, the implementation of the proposed acquisition.

10. COMMITMENTS AND REPRESENTATIONS ARE MISSOURI JURISDICTIONAL

The commitments and representations made by Atmos in this Unanimous Stipulation and Agreement are intended to apply only in the context of Missouri jurisdictional regulatory activities. Commission approval of this Unanimous Stipulation and Agreement is not intended, and shall not be construed, to restrict in any way the ability of either the Commission, Atmos or any party hereto to take any position whatsoever regarding matters covered by this Unanimous Stipulation and Agreement in proceedings before the Federal Energy Regulatory Commission or any other non-Missouri jurisdictional regulatory authority.

11. OPENING OF INVESTIGATIVE DOCKET

Atmos Energy Corporation will not oppose the filing of a Staff motion to open a docket to investigate Atmos' April 2004 decision to transfer its gas supply department from the regulated Atmos Energy Corporation to the unregulated 100% owned affiliated Atmos Energy Services, LLC (AES), a Delaware limited liability company. Atmos did not disclose the transfer until a data request response in the merger case. Atmos does not believe Commission approval is necessary for this action.

12. RATEMAKING TREATMENT

That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for ratemaking purposes, and that the Commission reserves the right to consider the ratemaking treatment to be afforded this transaction in any subsequent proceeding.

13. SAFEGUARDS OF ATMOS' REGULATED OPERATIONS FROM ITS UNREGULATED SUBSIDIARIES

Atmos agrees to conduct any new or existing unregulated, non-utility operations in separate subsidiaries. Atmos will not, directly or indirectly: allow any debt of its unregulated subsidiaries, to be recourse to it; pledge Atmos equity as collateral or security for the debt of any of its subsidiaries; or henceforth, give, transfer, invest, contribute or loan to any of its subsidiaries, any equities or cash without Commission approval. In the future, Atmos will not transfer to any subsidiary thereof, directly or indirectly, assets or employees necessary and useful in providing service to Atmos' Missouri customers without Commission approval. Atmos shall not guarantee the notes, debentures, debt obligations or other securities of its unregulated subsidiaries without Commission approval.

14. TREATMENT TO BE AFFORDED ISSUANCE OF COMMON EQUITY

Atmos shall issue and sell at least \$300 million of new common equity to complete the \$1.925 billion transaction pursuant to the approval of the shelf registration by the Securities and Exchange Commission.

15. RELIANCE ON ATMOS REPRESENTATIONS

Staff has conducted extensive discovery in this case. As a result of representations made by Atmos and relied upon by Staff, Staff has decided to enter into this Unanimous Stipulation and Agreement. Attached hereto, as Exhibit A, is a list of the most basic and essential Atmos representations relied upon by Staff. Atmos states and represents that Exhibit A accurately sets out representations made by Atmos. Atmos has reviewed and believes that these representations are true based upon its best information and efforts.

16. COMPLIANCE WITH TERMS OF UNANIMOUS STIPULATION AND AGREEMENT

Failure of Atmos or any affiliated company to comply with the terms of this Unanimous Stipulation and Agreement could result in a Staff investigation, with Commission approval, and the filing of a complaint if the investigation does not lead to resolution of investigatory concerns. Staff's execution of this Unanimous Stipulation and Agreement does not constitute a waiver of its ability to raise any issue or argue any position on an issue in any other matter before the Commission.

17. CONTINGENT WAIVER OF RIGHTS

A. This Unanimous Stipulation and Agreement has resulted from extensive negotiations among the Parties and the terms hereof are interdependent. In the event the Commission does not adopt this Unanimous Stipulation and Agreement in total, then this Unanimous Stipulation and Agreement shall be void and no Party shall be bound by any of the agreements or provisions hereof. The stipulations herein are specific to the resolution of this proceeding, and all stipulations are made without prejudice to the rights of the Parties to take other positions in other proceedings.

B. This Unanimous Stipulation and Agreement is being entered into for the purpose of disposing of all issues in this case. None of the Parties to this Unanimous Stipulation and Agreement shall be deemed to have approved, accepted, agreed, consented or acquiesced to any ratemaking principle or procedural principle, including, without limitation, any method of cost determination or cost allocation or revenue related methodology, and none of the signatories shall be prejudiced or bound in any manner by the terms of this Unanimous Stipulation and Agreement in this or any other proceeding, whether this Unanimous Stipulation and Agreement is approved or not, except as otherwise expressly specified herein.

C. All Parties further understand and agree that the provisions of this Unanimous Stipulation and Agreement relate only to the specific matters referred to in the Unanimous Stipulation and Agreement and no Party waives any claim or right which it otherwise may have with respect to any matters not expressly provided for in this Unanimous Stipulation and Agreement. All Parties further reserve the right to withdraw their support for the settlement in the event that the Commission modifies the Unanimous Stipulation and Agreement in a manner which is adverse to the Party withdrawing its support and further, all Parties reserve the right to contest any such Commission order modifying the settlement in a manner which is adverse to the Party contesting such Commission order.

18. ADDITIONAL TERMS

A. In the event the Commission accepts the specific terms of this Unanimous Stipulation and Agreement, the Parties waive, with respect to the issues resolved herein: their respective rights pursuant to Section 536.070(2), RSMo 2000 to call, examine and cross-examine witnesses; their respective rights to present oral argument or written briefs pursuant to Section 536.080.1, RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2, RSMo 2000; their respective rights to seek rehearing pursuant to Section 386.500, RSMo 2000; and their respective rights to judicial review pursuant to Section 386.510, RSMo 2000. If this Unanimous Stipulation and Agreement is not approved by the Commission, the Parties request that a revised Procedural Schedule be established which provides for a hearing, to include the opportunity for cross-examination.

B. The Staff shall, within two (2) days of the filing of this Unanimous Stipulation and Agreement, file with the Commission suggestions or a memorandum in support of this Unanimous Stipulation and Agreement and the other Parties shall have the right to file

responsive suggestions within one (1) day of receipt of Staff's memorandum.

C. The Staff shall also have the right to provide, at any agenda meeting at which this Unanimous Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, promptly provide other Parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from Staff. Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any Protective Order issued in this case.

D. To assist the Commission in its review of this Unanimous Stipulation and Agreement, the Parties also request that the Commission advise them of any additional information that the Commission may desire from the Parties relating to the matters addressed in this Unanimous Stipulation and Agreement, including any procedures for furnishing such information to the Commission.

WHEREFORE, the signatory Parties respectfully request that the Commission issue its order approving the Transaction and this Unanimous Stipulation and Agreement at its earliest opportunity so as to be effective by October 1, 2004, if possible, and by said order:

A. finding that the Transaction, subject to the terms of the Unanimous Stipulation and Agreement, is not detrimental to the public interest;

B. authorizing Atmos to directly or indirectly acquire the assets and business of TXU Gas Company, and to otherwise accomplish the Transaction as permitted by the terms of the Agreement, Appendix 1 to the Application;

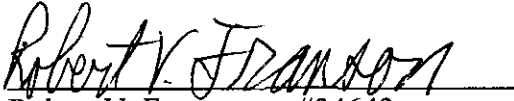
C. authorizing Atmos to enter into, execute and perform in accordance with, or as may be permitted by or result from, the terms of the Agreement, Appendix 1 to the Application;

D. authorizing Atmos to enter into, execute and perform in accordance with, or as may be permitted by or result from, the terms of all other documents and to take any and all other actions which may be reasonably necessary and incidental to the performance of the Transaction; and,

E. granting such other relief as may be necessary and appropriate to accomplish the purposes of the Transaction and the Application and to consummate the Transaction and related undertakings in accordance with the Agreement and Plan of Merger contained in Appendix 1 to the Application.

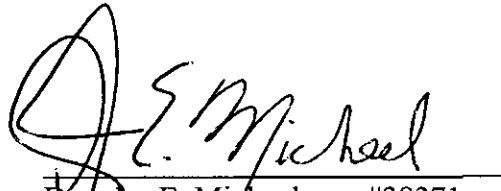
Respectfully submitted,

DANA K. JOYCE
General Counsel



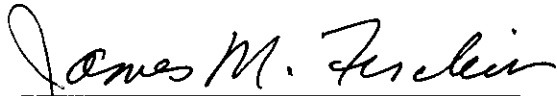
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Attorney for
Atmos Energy Corporation

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 14th day of September 2004.


Robert V. Franson

Representations of Atmos Energy Corporation

The Staff has relied on certain statements and representations of Atmos during the course of Case No. GM-2004-0607. These include the following:

Atmos will endeavor to maintain an investment grade credit rating.

Atmos states that the Merger Premium associated with this transaction is \$533,500,000 - DR 4.

Atmos believes that certain forecasted cost savings related to overhead costs will enhance the Company's ability to pay down debt. Atmos states that these expense reductions are not guaranteed but are certainly plausible based on Atmos' experience with prior acquisitions. Atmos has not made plans in the event actual savings are less; however, any impact would be limited to the Texas Division and would not affect existing Atmos jurisdictions such as Missouri - DR 102.

Atmos intends to enter into transitional service agreements (TSA) that are substantially similar to the ones attached to the purchase agreement. The first TSA covers the following services: Billing and Customer Information Services; Bill Printing and Mailing; Remittance Processing; Collections; Customer Care Services; New Construction Management; Reporting; Account Manager Services; Software Services; and System Changes.

The second TSA covers the following services: Meter Reading Services; Project Management Design Services; Asset Management; Relationship Management/Electric Operations; Financial Planning Services; Human Resources Services; Property Services; Accounting Services; Regulatory Affairs; and Other Services.

The third TSA covers the following services: Accounting/Controller; Administrative Services; Corporate Services; Environmental Services; Human Resources; Information Technology; Procurement Services; and Regulatory Affairs.

Annual costs associated with the first TSA have been capped at \$26 million. Annual costs associated with the second TSA will be calculated based upon Oncor Utility Solutions actual costs to provide the covered services. Atmos has not yet received estimates for the cost of services to be rendered under the second TSA. Annual costs associated with the third TSA will be calculated based upon TXU Business Services actual costs to provide the covered services - DR 70.

Atmos states that Missouri's capital expenditures will not be negatively impacted by the proposed transaction - DR 100.

Atmos states that Pipeline Integrity Management (PIM) programs in Texas will not detrimentally impact Missouri. Since Atmos cannot predict if "more difficult PIM targets" will exist in the future, it cannot state with certainty whether capital expenses will be impacted by any changes to PIM. In any event, Atmos will take whatever actions are necessary to remain in compliance with

PIM in all of the jurisdictions in which it operates and will allocate the costs of compliance to the appropriate jurisdiction - DR 97.

Poly 1 Pipe - Atmos states that TXU has replaced all known Poly 1 pipe and that expenditures related to this will not negatively impact Missouri customers - DR 95.

Service lines - Atmos states there are 456,000 bare steel service lines at TXU Gas. Expenditures related to this will not negatively impact Missouri customers - DRs 85 and 100.

Bare Steel – Atmos states there are 3,600 miles of unprotected bare steel in the system. There is no active replacement/protection program for this pipe. Expenditures related to this will not negatively impact Missouri customers - DRs 85 and 100.

Cast Iron – Atmos states there are 950 miles of 4” to 8” cast iron main existing in Ft. Worth, Dallas, and Waco. TXU does not have an active replacement program for this pipe. Expenditures related to this will not negatively impact Missouri customers - DRs 85 and 100

Pressure improvement in north Metro area - Atmos states a significant pressure improvement project is needed in the northern metro area of Dallas. Expenditures related to this will not negatively impact Missouri customers - DRs 85 and 100.