

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

In the matter of the verified application and)
petition of Atmos Energy Corporation for) **Case No. GO-2009-**
establishment of an infrastructure system) **Tariff Tracking No.**
replacement surcharge.)

**VERIFIED APPLICATION AND PETITION
OF ATMOS ENERGY CORPORATION FOR ESTABLISHMENT
OF AN INFRASTRUCTURE SYSTEM REPLACEMENT SURCHARGE**

COMES NOW Atmos Energy Corporation ("Atmos" or "Company"), pursuant to Sections 393.1009, 393.1012 and 393.1015 RSMo. and Missouri Public Service Commission ("Commission") Rules 4 CSR 240-2.060, 2.080 and 3.265 and, for its Verified Application and Petition for Establishment of an Infrastructure System Replacement Surcharge, respectfully states as follows:

BACKGROUND

1. On August 28, 2003, Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri became effective. These statutory provisions and Commission Rule 4 CSR 240-3.265 authorize eligible gas corporations to recover certain infrastructure replacement costs through the implementation of an infrastructure system replacement surcharge ("ISRS"). Prior to implementing an ISRS, the gas corporation must file a petition with the Commission for review and approval before its rates and charges can be adjusted to provide for the recovery of the ISRS costs. To that end, Atmos submits this Verified Application and Petition.

THE APPLICANT

2. Atmos is a corporation duly organized, validly existing and in good standing in all respects under the laws of the State of Texas and Commonwealth of Virginia, with its principal office and place of business at 5430 LBJ Freeway, Dallas, Texas 75240. Atmos is authorized to conduct business in the State of Missouri and is engaged in the distribution and retail sale of natural gas in those areas of Missouri certificated to it by the Commission.

3. A certified copy of Atmos' certificate of authority to do business as a foreign corporation in Missouri was filed with the Commission in Case No. GR-2006-0387, which was Atmos' most recent general rate proceeding in Missouri. Said document is incorporated herein by reference in accordance with 4 CSR 240-2.060(1)(G) and made a part hereof for all purposes. Atmos is a "gas corporation" and a "public utility" as those terms are defined in Section 386.020 of the Revised Statutes of Missouri and as such is subject to the jurisdiction of the Commission as provided by law.

4. Communications in regard to this Application should be addressed to:

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5. Atmos may have pending actions against it involving customer service or rates having occurred within three (3) years from the date of this Application in certain of the jurisdictions in which it provides service, but none in Missouri. Atmos has no annual report or assessment fees that are overdue.

THE ISRS REQUEST

6. With this application, Atmos requests an adjustment to its rates and charges through the implementation of an ISRS rate schedule that provides for the recovery of costs incurred in connection with ISRS-eligible infrastructure system replacements made during the period beginning October 1, 2006 through March 31, 2008. In accordance with the provisions of Sections 393.1009-1015 and 4 CSR 240-3.265, the proposed ISRS rate schedule should reflect the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to Atmos' weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements during this period that are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with the aforesaid infrastructure system replacements. Atmos also seeks to recover all state, federal and local income or excise taxes applicable to such ISRS income and to recover all other ISRS costs such as depreciation expense and property taxes due within 12 months of this filing.

A. Eligibility of Costs

7. The infrastructure system replacements for which Atmos seeks ISRS recognition are set forth on Appendix A, which is attached hereto and made a part hereof for all purposes. The infrastructure system replacements listed on Appendix A are eligible gas utility plant projects in that they are either: a) mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition; or b) main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life, or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements; or c) unreimbursed infrastructure facility relocations due to the construction or improvement of a highway, road, street, public way or other public work required by or on behalf of the United States, the State of Missouri, a political subdivision of the State of Missouri, or another entity having the power of eminent domain.

8. Capital data used for the ISRS filing was reported directly from Atmos Energy's plant accounting system. Atmos Energy's plant accounting is project based. Each project placed in service in Missouri was reviewed to ensure that it was an eligible "gas utility plant project" as defined in Section 393.1009 of the Missouri Revised Statutes. This review was facilitated through the use of several data elements maintained for each project in the plant accounting system. The *In Service Date* was used to eliminate any projects that did not fall within the filing window of the ISRS. The *Budget Category* field was used to eliminate projects that did not fall into the categories of System Integrity, System Improvements, Public Improvements, and Maintenance. The *Project Description* was reviewed to ensure that the project was consistent with the intent of the ISRS. The *Business Segment* field was used to assign the cost to the

appropriate rate division. And finally, the *FERC Activity Code* determined whether the costs were for an addition or a retirement.

9. The data for additions is presented in Appendix A Schedule 1, and for retirements in Appendix A Schedule 2. In each schedule the data by project is summarized for each rate division at the utility account level, with the in service date and addition amount provided for the project. The Accumulated Depreciation is calculated by multiplying the Monthly Depreciation Rate by the number of Months the asset has been in service. The Depreciation Expense column contains the annual depreciation expense for the asset. Sub-total rows are provided for each rate division and class of assets.

10. The assets selected were assigned a 15 year MACRS class life. According to the Internal Revenue Code, these assets are permitted to be depreciated over 15 years, 150%, double declining balance, half year convention. Assets placed during the fiscal year ended 09/30/07 are therefore permitted 5% tax depreciation for the fiscal year ended 09/30/07 and 9.5% tax depreciation for the fiscal year ended 09/30/08. Assets placed in service in the fiscal year ended 09/30/08 are allowed 5% tax depreciation for the fiscal year ended 09/30/08. Because the schedule is prepared as of 03/31/08, only half of the allowable tax depreciation for the fiscal year ended 09/30/08 should be reflected. Thus an asset placed in service in fiscal year 09/30/07 which is allowed tax depreciation of 9.5% in fiscal year ended 09/30/08 shows only 4.75% tax depreciation and an asset placed in service in fiscal year 09/30/08 which is allowed initial year tax depreciation of 5% shows only 2.5% of tax depreciation.

11. In addition to the above, the Internal Revenue Code permits 50% bonus depreciation on assets placed in service after 01/01/08 and before 12/31/08. This bonus depreciation is a 50% write down of the cost basis of the asset. Thus an asset added for \$100 on 01/15/08 would be permitted to expense \$50 in the year it was added. The remaining \$50 cost

basis of the asset would be depreciated as a first year asset and allowed a 5% depreciation deduction in the fiscal year ended 09/30/08. Because the schedule is prepared as of 03/31/08, only half of the bonus depreciation is shown (25%) and only half of the allowable tax depreciation on the remaining asset is shown (2.5%).

12. In addition to meeting the foregoing criteria, the infrastructure system replacements listed on Appendix A are also eligible for ISRS treatment because they: a) did not increase revenues by directly connecting to new customers; b) are currently in service and used and useful; c) were not included in Atmos's rate base in its most recently completed general rate case, and d) replaced and/or extended the useful life of existing infrastructure.

13. Finally, the infrastructure system replacements listed on Appendix A are eligible for ISRS treatment because Atmos' last general rate case proceeding (the "Rate Case") was decided by Commission Order issued on February 22, 2007, effective March 4, 2007, in Case No. GR-2006-0387, which is within three years of the Company's ISRS request.

B. Rate Schedules, Calculations and Supporting Documentation

14. Attached hereto as Appendix B is the rate schedule, with supporting documents, proposed by Atmos in order to establish the ISRS and to provide for the adjustment of its rates and charges to reflect recovery of eligible infrastructure costs. This proposed rate schedule, on an annualized basis, will produce ISRS revenues of at least one-half of one percent of Atmos' base revenue level approved by the Commission in Atmos' most recent general rate proceeding, but not in excess of ten percent of Atmos' base revenue level. Pursuant to Missouri Revised Statute 393.1015.2(7) certain required information is provided by examining the testimonies submitted during the most recently approved general rate proceeding by the Commission. The income tax conversion factor is the factor that is used by Missouri PSC staff. Rate of return,

weighted average cost of debt and the cost of common equity were calculated by taking the Missouri staff, Office of Public Counsel, and the Atmos Energy recommendations; adding them together; and then dividing by three. Since the Office of Public Counsel only provided testimony for the return on equity, Atmos' and staff's capital structure and embedded costs were averaged in the determination of Office of Public Counsel's weighted cost of capital. Since staff provided a range for ROR, the mid-range was chosen for the calculations. (See Appendix B, Schedule 6 for the calculations and citations.)

15. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes current local, state, and federal income tax rates through a combined income tax rate conversion factor of 1.6231. This conversion factor reflects the Missouri Staff's factor that was used in the most recent general rate proceeding.

16 In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes the average regulatory capital structure as calculated using the average of the Staff and the Company's recommendations (including surrogate amount calculated for OPC as described above) as found in the testimonies in the most recent rate proceeding, and reflects an overall rate of return of 7.94%.

17. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a weighted average cost of debt of 3.43% and reflects the average of the Staff and the Company's recommendations (including surrogate amount calculated for OPC as described above) found in the most recent rate proceeding.

18. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a cost of common equity of 9.33% and reflects the average of the Staff, Office of Public Counsel, and Atmos Energy recommendations found in the most recent rate proceeding.

19. In determining the appropriate pre-tax ISRS revenues, this filing reflects the most recent property tax rates applicable to these projects placed in service on or before December 31, 2007.

20. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes depreciation rates currently applicable to the eligible infrastructure system replacements, as found in the Partial Non-Unanimous Stipulation and Agreement, dated November 29, 2006, Attachment B.

21. In determining the appropriate monthly ISRS charge, the proposed rate schedule is based on a reasonable estimate of billing units in the period in which the charge will be in effect, which is derived by dividing the appropriate pre-tax revenues, as calculated above, by the average number of customers in the year ended March 31, 2008, and then further dividing this quotient by twelve. (See Appendix B, Schedule 5). The monthly ISRS charge is apportioned between customer classes in proportion to the customer charges applicable to those classes and by the three rate districts.

ADDITIONAL INFORMATION

22. Appendix C provides an example bill insert or bill message notifying customers of the ISRS charge with the initial bills containing the ISRS. Informational bill inserts will also be provided and an example is in Appendix C. Once a year Atmos will provide a bill insert explaining the ISRS and what it is designed to recover.

23. Updated information informing customers of the ISRS on Atmos' website will also be done and an example of the text is provided in Appendix C. The information on this page of the website will reflect the information provided in the bill inserts.

24. Talking points and scripts for the customer call center employees are also provided in Appendix C.

WHEREFORE, pursuant to 393.1015.2(3) and Commission Rule 3.265(12), Atmos Energy Corporation respectfully requests that the Commission issue an Order, effective as soon as reasonably possible, approving Atmos' ISRS rate schedules in order to provide for the recovery of the eligible infrastructure system replacement investments made by Atmos from October 1, 2006, through March 31, 2008, and granting such other relief as may be necessary and appropriate to accomplish the purposes of Sections 393.1009 through 393.1015.

Respectfully submitted,

/s/ **Larry W. Dority**

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CERTIFICATE OF SERVICE

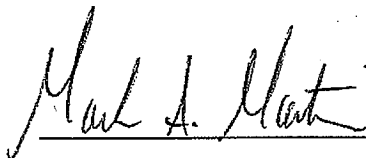
The undersigned certifies that a true and correct copy of the foregoing Application and Petition was served on the General Counsel of the Staff of the Missouri Public Service Commission and the Office of the Public Counsel on this 14th day of August, 2008 by hand-delivery, fax, electronic or regular mail.

/s/ Larry W. Dority


VERIFICATION

Commonwealth of Kentucky)
)
City of Owensboro) ss

I, Mark A. Martin, being of lawful age state: that I am Vice-President of Rates and Regulatory affairs for Atmos Energy Corporation, that I have read the foregoing Application and Petition and the documents attached thereto; that the statements and information set forth in such Application and Petition and attached documents are true and correct to the best of my information, knowledge and belief; and, that I am authorized to make this statement on behalf of Atmos Energy Corporation.



Subscribed and sworn to before me this 14 day of August 2008.



Notary Public

My Commission expires: November 15, 2011