I.C.C. DOCKET NO. 05-0738

TESTIMONY OF VICTOR W. EDWARDS

ATMOS ENERGY CORPORATION

Q. Would you please state your name, responsibility, and business address?

A. Victor W. Edwards, Manager, Rate Administration, Atmos Energy Corporation (Atmos, the Company), 5430 LBJ Freeway, Dallas, Texas 75240.

Q. Please briefly summarize your educational background and experience within the natural gas industry.

A. In March 1992, I received a Bachelor of Science degree in Business Administration, with a major in accounting from Auburn University at Montgomery in the state of Alabama. I have also completed additional studies in rate processing and fundamentals of regulated utilities sponsored by the Southern Gas Association and the Gas Rate Fundamentals Course at the University of Wisconsin at Madison.

My employment within the gas industry began with Atmos Energy Corporation in March 1993 in the area of General Accounting and in November 1994, I joined the Rates and Regulatory Affairs group as a Rate Analyst. I was responsible for filing Gas Cost Adjustments ("GCA") in the states of Texas, Louisiana, and Colorado. In November of 1995, I was promoted to Senior Rate Analyst and my responsibilities increased to filing Purchased Gas Adjustments ("PGA") for the state of Kentucky. In September of 1997, I was promoted to Price Coordinator, responsible for areas of rate design and pricing mechanisms. In December of 1997, I transitioned to regulatory work in the telecommunications industry, working as a Staff Administrator for GTE, and then Verizon Communications.

In March 2003, I returned to Atmos working as a Senior Financial Analyst until July 2004 when I was promoted to Manager, Rate Administration. My current responsibilities include the computation and filing of PGA's and Gas Cost Adjustments ("GCA"), along with the recovery/refunding of under/over-recovery balances for six Atmos business divisions in twelve states, which are Illinois, Colorado, Kansas, Missouri, Iowa, Tennessee, Virginia, Georgia, Kentucky, Mississippi, Louisiana, and Texas. In addition to the PGA and GCA filings, I am also responsible for the maintenance of the Company's rate tariffs.

Q. Have you testified before this Commission?

A. Yes, I have testified before this Commission in ICC Docket No. 04-0672.

Q. Please state the purpose of your testimony in the proceeding.

A. The purpose of my testimony is to present the evidence required by the Commission's Citation Order dated November 22, 2005. The evidence required consists of: 1) the reconciliation of revenues billed under the PGA clause with the actual cost of gas obtained during the 2005 reconciliation year; 2) the prudence of the gas supply purchases during the reconciliation year; and 3) a description of the measures taken to insulate the PGA from price volatility in the wholesale natural gas market.

Q. Please provide a general background of Atmos' Illinois operations before presenting the required evidence.

A. Atmos provides natural gas service to six operating areas in Illinois: Virden, Vandalia, Harrisburg, Metropolis, Salem, and St. Elmo. The gas supply for these service areas is received through separate interstate pipelines: Panhandle Eastern Pipe Line Company, Natural Gas Pipeline Company of America, Texas Eastern Transmission Corporation, Trunkline Gas Company, and Mississippi River Transmission Corporation. In accordance with the Company's tariff, only one state-wide reconciliation is submitted for the 2005 reconciliation year.

Q. What evidence are you presenting to show the reconciliation of revenues under the PGA clause with the actual cost of gas supplies obtained during the 2005 reconciliation year?

A. Page 1 of the Exhibit reflects the minimum filing requirements set forth in the Citation Order. Pages 2 and 3 of the Exhibit consist of three sections: Gas costs recoverable through the PGA clause, titled "Gas Cost Recoverable through Gas Charge"; revenues billed under the PGA clause, titled "Gas Cost Recovered", and the net reconciliation balance. The "Gas Cost Recoverable through Gas Charge" consists of all invoiced gas cost (commodity cost and, where applicable, contract demand cost, storage demand cost, and transportation charges on spot market gas), plus the commodity cost of gas withdrawn from storage at the applicable, First-in, First-out (FIFO) inventory rate, plus the interest of any unamortized balance of Factor A on Schedule II in the Company's monthly PGA filings, less the commodity cost of gas injected into storage at the applicable (FIFO) inventory rate, less the cost of gas used by the Company at the system average cost of gas during the month of usage.

Exhibit I reflects the totals of all the Illinois service areas, with total recoverable gas costs of $19,753,493.39 and total gas cost recoveries of ($22,284,100.71), leaving a net amount due Customers of ($2,530,607.32).

Q. Is Atmos requesting any Factor O adjustments?

A. Yes. The Company is requesting a Factor O adjustment of ($57,760.93). Company inadvertently reflected an incorrect Purchased Gas Adjustment Recoveries in the January filing, October actuals. Schedule II line 2 should have been $623,265.00 instead of $504,367.00.

Q. Please explain the method utilized to purchase gas for Atmos' Illinois service areas.

A. The Company has contracts with four interstate pipelines. Those interstate pipelines and the Atmos' operating areas served are: Panhandle Eastern Pipeline Company (Panhandle) serving Virden; Natural Gas Pipeline Company of America (Natural) serving Vandalia, Salem and St. Elmo; Trunkline Gas Company (Trunkline) serving Metropolis, Salem and Virden; and Mississippi River Transmission Corporation (MRT) serving Salem. Harrisburg is served through Texas Eastern Transmission via a firm city gate delivery service by Atmos Energy Marketing. All of the contracts are transportation and/or storage contracts, and Atmos is responsible for the acquisition of the gas supply from whatever source it chooses. The Company moves gas through Natural and MRT under a demand/commodity transportation rate schedule, with a one-part transportation rate for "swing" volumes. The gas moved through Trunkline and

Panhandle is under a one-part transportation rate schedule. All of the service areas have purchased storage services. The acquisition of the actual gas varies by service area. All of the contracts are based on market sensitive industry indices for the reconciliation period. In addition, for the months of January 2005 through March 2005, the Company entered into financial swap contracts on approximately 50% of the net expected purchases for that period in order to mitigate any impact of possible natural gas price spikes in the PGA rates to customers. For the months of November 2005 through December 2005, the Company entered into financial swap contracts on approximately 26% of the net expected purchases for that period. These contracts to purchase gas, including spot market purchases, are determined by using a competitive bidding process. The Company also has agency agreements with Tenaska Marketing Ventures to manage our capacity on NGPL, which was replaced by BP Energy Company effective November 1, 2005, and Center Point Energy Gas Marketing on the MRT system.

Q. How does the bidding process work?

A. The Company solicits bids from producers and brokers. The request for bids contains information such as quantity of gas, the serving pipeline, and length of contract. If an RFP is solicited to our affiliate AEM, a set of Affiliate Rules established in June 2003 outlines the elements for compliance. After bids are received, the Company evaluates those bids by taking into consideration the producer/broker's reputation, reliability of supply, and price. The Company must have assurance of the bidder's reputation and reliability of supply before awarding a contract. If several bidders meet these criteria, the bidder with the lowest price is chosen.

Q. Please describe the measures taken by the Company to insulate the PGA from price volatility.

A. As mentioned, the Company hedged approximately 50% of the expected net purchases for the period January 2005 through March 2005 and 26% of the expected net purchases for the November 2005 and December 2005 periods, by purchasing financial futures contracts. The net purchases are the total system requirements less storage. Storage supplies approximately 36% of the system requirements. The Company hedged 50% of the net purchases for the period January 2005 through March 2005 and 26% of the net purchases for November 2005 and December 2005 to provide rate stability and to mitigate any potential impact of severe price spikes, while leaving the remaining net purchases at the traditional purchasing patterns to allow customers to benefit from any downward turn in market prices. The November and December 2005 26% hedge percentage is less than the January through March 2005 50% hedge percentage due to the unprecedented upward impact on winter forward prices from the loss of Gulf of Mexico production due to Hurricanes Katrina and Rita in the summer of 2005. Because of extraordinary adverse market conditions the hedging program was suspended during the implementation months of July and August 2005. The hedging activity for January through March 2005 resulted in an increase in gas costs of approximately $249,210 (loss) above the prevailing market prices in effect during those months. The hedging activity for November and December 2005 resulted in a decrease of gas costs of approximately $145,970 (gain) below the prevailing market prices in effect during those months.

Q. Is it your opinion that the Company is engaging in prudent gas purchasing decisions?

A. Yes.

Q. Does this conclude your testimony at this time?

A. Yes.