Attachment A
To Verified Petition for Approval of Affiliate Interest Transaction
Atmos Energy Corporation
September 2, 2011

DOCKET NO. 11-_____

ATMOS EXHIBIT 1.0

DIRECT TESTIMONY

OF

REBECCA M. BUCHANAN

SUBMITTED ON BEHALF OF

ATMOS ENERGY CORPORATION

Q. Please state your name and business address?

A. My name is Rebecca M. Buchanan and my business address is 377 Riverside Drive, Suite 201, Franklin, Tennessee, 37064-5393.

Q. Have you previously testified before the Commission?

A. Yes, I have testified previously before the Commission in Docket No. 09-0365.

Q. Have you testified before other state public utility regulatory commissions?

A. I have testified previously before state utility regulatory commissions in the states of Colorado, Georgia, Kansas, Kentucky, Mississippi, Missouri, Tennessee and Virginia.

Q. For whom do you work and in what capacity?

A. I am employed by Atmos Energy Corporation ("*Atmos*" or the "*Company*") as Manager, Regional Gas Supply.

Q. Please describe your professional background?

A. I received my Bachelor of Business Administration Degree with honors from the University of Oklahoma, majoring in Accounting. I am a Certified Public Accountant in the state of Oklahoma and a member of the Tennessee Society of Certified Public Accountants. My professional experience includes six years of corporate accounting outside the gas industry in which I held the positions of Staff Accountant, Senior Accountant, Payroll Manager and Regional Accounting Manager. In 1991, I accepted the position of Analyst/Regulatory Affairs at United Cities Gas Company. With the 1997 merger of United Cities Gas and Atmos

Energy Corporation, I transferred to the Atmos Rates Department where I was a Senior Rates Analyst until my promotion to Manager, Regional Gas Supply in August 2007.

Q. Please describe your role as Manager, Regional Gas Supply?

A. I am responsible for the development, implementation and direction of gas supply and procurement and reporting for the Kentucky/Mid-States Division of the Company, which includes the state of Illinois. In addition to Illinois, the Kentucky/Mid-States Division consists of the states of Georgia, Iowa, Kentucky, Missouri, Tennessee, and Virginia.

Q. What is the purpose of your direct testimony?

A. My direct testimony supports the verified petition of Atmos in this docket for approval of arrangements in connection with the release by Atmos Energy Marketing, LLC ("*AEM*") of Texas Eastern Transmission Company ("*TETCO*") Comprehensive Delivery Service ("*CDS*") pipeline capacity, and the acquisition from TETCO of that capacity by Atmos. Atmos has requested that the Commission rule that these arrangements are not subject to approval under Section 7-101 of the Act. My testimony is intended to provide the factual basis that the Commission needs to make that determination. In addition, should the Commission find that approval is necessary, my testimony shows that this approval is in the public interest because it will facilitate Atmos' ability to secure more of its own transportation capacity on the pipeline that serves its Harrisburg

service area.

Q. Are you sponsoring any attachments or schedules with your testimony?

A. No.

Q. Please briefly describe Atmos?

A. Atmos is a corporation duly organized and existing under the laws of the State of Texas and the Commonwealth of Virginia, with principal offices located at 1800 Three Lincoln Centre, 5430 LBJ Freeway, Dallas, Texas 75240. It is a public utility within the meaning of the Public Utilities Act. It is engaged in the business of distributing and selling natural gas in Illinois as well as in the States of Georgia, Tennessee, Virginia, Missouri, Mississippi, Iowa, Kansas, Texas, Louisiana, Colorado and Kentucky.

Q. Please briefly describe AEM?

A. AEM is a limited liability company organized and existing under the laws of the State of Delaware. AEM is a natural gas marketing company operating primarily in the Midwest and Southeast areas of the United States. Pursuant to the Commission's order in Docket No. 00-0640, AEM is a wholly owned indirect subsidiary of Atmos. Specifically, AEM is a wholly owned subsidiary of Atmos Energy Holdings, Inc., a Delaware corporation, which is itself a wholly owned subsidiary of Atmos. Thus AEM is an affiliated interest of Atmos under the Illinois Public Utilities Act.

Q. Please briefly describe Atmos' operations in Illinois?

A. Atmos provides natural gas distribution service to approximately 24,000 customers in five zones in Illinois: Virden, Vandalia, Harrisburg, Metropolis, and Salem. 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 (TETCO), Trunkline Gas Company, and Mississippi River Transmission Corporation. The Commission is currently considering the Company's and Liberty Energy (Midstates) Corp.'s ("*Liberty Energy Midstates*") request to approve, among other things, the acquisition of Atmos' Illinois operations by Liberty Energy Midstates in Docket 11-0559. AEM is not part of that transaction and therefore upon consummation of the transaction being considered in Docket No. 11-0559, AEM will no longer be an affiliated interest of these service areas. However, I expect the CDS capacity to have been transferred before Docket No. 11-0559 is concluded.

Q. Please describe, in general terms, the manner in which Atmos has obtained natural gas supply for its Harrisburg operations?

A. The TETCO pipeline is the only interstate pipeline that is geographically proximate to Atmos' Harrisburg service area. Therefore, Atmos' gas supply has been delivered to Harrisburg on the TETCO pipeline. From November 2001 until November 2008, Atmos did not hold firm transportation capacity on TETCO to

serve Harrisburg but instead relied upon its gas suppliers to provide firm delivered service. In 2008, Atmos obtained SS-1 bundled transportation and storage service and FT-1 transportation service on the TETCO pipeline from a transaction with AEM which the Commission approved in Docket No. 09-0365.

Q. Is TETCO capacity always available from the pipeline?

A. No, for some time TETCO has been fully subscribed, which means that all of its firm transportation capacity is held by other shippers and the pipeline itself does not have any additional firm transportation capacity. The only way to obtain capacity is when another shipper releases its capacity, as was the case in Docket No. 09-0365 and is the case in this docket.

Q. Why did Atmos try to obtain its own capacity on TETCO?

A. The primary benefit of Atmos having its own firm transportation capacity on TETCO to serve its Harrisburg operations is that it will allow Atmos to accept bids from natural gas suppliers who are not capable of providing transportation to the Harrisburg City Gate. This could increase the number of suppliers that can respond to its requests for proposals for gas supply to Harrisburg. Based on guidance to Atmos from Commission staff, it was determined that Atmos should obtain its own capacity on TETCO (rather than relying on gas suppliers to provide delivered service to Harrisburg).

Q. What alternatives have Atmos considered?

A. Over the past several years the Company has tried unsuccessfully to obtain permanent capacity for the Harrisburg, IL service area on TETCO. The Company has discussed forward and backhaul arrangements on TETCO but these were not available to Harrisburg.

Staff provided information to the company regarding other Illinois utilities that held capacity on TETCO. However, the Company did not find parties willing to permanently release capacity.

In addition, the Company evaluated changing receipt and delivery points on other Atmos contracts to free up capacity to serve Harrisburg; however, these potential changes did not provide capacity to Harrisburg.

Q. Is additional TETCO capacity available?

A. Atmos recently became aware that AEM is going to release or turn back capacity that it holds on TETCO. The capacity is winter-only CDS firm transportation service capacity. Atmos understands that AEM is willing to post this release as a pre-arranged capacity release on TETCO's Electronic bidding platform, in accordance with FERC guidelines. Atmos would like to obtain this capacity from TETCO.

Q. Please briefly describe CDS capacity?

A. The CDS capacity is 3,353 Dth/day firm winter-only transportation, having a termination date of October 31, 2012 with the option of annual renewals thereafter.

Q. Please briefly describe winter-only service?

A. Winter-only capacity means that the capacity is only available during the winter months, and therefore that the holder only need pay for demand charges related to the capacity during the months of November through March. Demand for gas is generally higher during these months.

Q. Can you estimate the savings of winter-only CDS capacity compared to other types of TETCO capacity?

A. Based on our inquiries Atmos is not aware that other TETCO capacity is available. However, based on tariff rates, having winter-only capacity would save approximately $140,000 annually over acquiring firm transportation (FT) or bundled storage (SS-1) capacity on TETCO for the entire year, were that capacity available to Atmos. I estimate that CDS winter-only capacity transportation charges will total approximately $115,000 annually, compared to transportation charges of approximately $255,000 for FT and SS-1 capacity annually. The winter-only capacity is only available during the winter months (FT and SS-1 is available year-round) but Atmos has other capacity to meet its year-round needs.

Q. Will any natural gas inventory change possession?

A. No. Unlike, the capacity transfer in Docket No. 09-0365, this transaction does not involve storage. As a result, no natural gas inventories will change possession. This is a significant difference because in this docket Atmos will not directly acquire anything from its affiliate AEM.

Q. Did Atmos inquire whether TETCO offers contracts for winter-only CDS firm transportation service capacity?

A. Based on discussions with TETCO, TETCO no longer offers contracts for winter-only CDS firm transportation service capacity and the only way to obtain this type of capacity is through a capacity release of a pre-existing winter-only contract. This is a unique opportunity to obtain this type of capacity.

Q. Why is the Company asking for expedited relief?

A. AEM's contract with TETCO for CDS capacity has a notification date of October 31, 2011. This means that unless the holder of the capacity renews the contract on or before October 31, 2011, the holder's right to capacity will terminate on October 31, 2012. The Company does not anticipate that AEM will exercise this option. The Company, if permitted to obtain the capacity as described herein, would exercise this right to renew for periods beyond 2012, but it would only have the ability to do this if it becomes the holder prior to October 31, 2011. As I have mentioned, TETCO is fully subscribed and the Company has experienced difficulty acquiring capacity on TETCO from other utilities. Winter-

only capacity is simply not available from TETCO anymore—if the AEM contract expires, TETCO will not make it available to other parties. Thus, Atmos requests expedited approval so that it can ensure that it is able to make use of this opportunity to acquire capacity that it believes will be beneficial to its operations and customers.

Q. Please explain how capacity on a fully subscribed pipeline such as TETCO can be obtained?

A. In brief, a new capacity holder (such as Atmos) can obtain capacity on a fully subscribed pipeline when it is released by an existing holder. Existing shippers have the right to release their capacity and such releases are facilitated by the interstate pipeline, such as TETCO. Once the available capacity is awarded, the new capacity holder enters into an agreement with TETCO and thereafter has the right to that capacity. It is likely that released capacity on a fully subscribed pipeline segment would garner shipper interest. Under certain transactions permitted by the rules of the Federal Energy Regulatory Commission and the pipeline's tariff, parties may pre-arrange these releases so that the capacity can be released by an existing shipper and awarded by TETCO to a replacement shipper. Multiple parties may bid on the released capacity, yet the pre-arranged replacement shipper has the right to match the best bid. In this way Atmos will be able to ensure the rights to the capacity through the pre-arranged capacity release described here.

Q. Please describe in more detail the arrangements that are the subject of this docket?

A. If the Commission grants the relief requested in this docket, AEM will release its CDS capacity on TETCO effective November 1, 2011. This release would be posted as a pre-arranged capacity release on TETCO's Electronic bidding platform, in accordance with FERC guidelines. As part of the pre-arranged capacity release process, the releasing shipper, AEM, will offer the CDS capacity to be released by openly posting a Customer Notice on TETCO's auction website. The terms and conditions of the capacity release are stated in this offer. Atmos, the prearranged replacement shipper, will then initiate confirmation of the prearrangement electronically through TETCO's website. The CDS capacity will become available for bid. Any party on the pipeline's preapproved bidder list may seek to acquire the capacity by submitting a bid through TETCO's website. At the prescribed close time, TETCO will evaluate each bid to ensure it meets the requirements of release, tariff requirements and operational consideration. TETCO determines the best bid. If Atmos does not submit the best bid, it has the right as the prearranged party to match the best bid or decline the capacity. TETCO will award the capacity and the winning bidder shall become the replacement shipper. AEM's contract will be terminated or amended to reflect the reduction in capacity. TETCO will issue a new contract for the capacity release to the replacement shipper.

Q. What reserve margin would result from the proposed capacity transfer and what adjustments would the Company make going forward?

A. The Company estimates that its reserve margin upon acquiring the 3,353 DTH/Day of CDS capacity would be approximately ten percent. A ten percent reserve margin is relatively high and therefore upon obtaining the CDS capacity the Company would seek to make changes to the capacity portfolio to reduce its reserve margin (most likely to some amount at or below five percent). Options include reducing its TETCO capacity or reducing its reliance on Gallagher Storage. TETCO has been fully subscribed on the 24" line that runs through Illinois and the Company would have limited ability to change the capacity portfolio prior to the CDS capacity opportunity.

Q. Are the arrangements set forth in the public interest?

A. The arrangements for the CDS capacity transfer are in the public interest. Atmos' acquisition of capacity on TETCO may make it more likely that Atmos will obtain bids to supply gas to its Harrisburg operations from a broader set of suppliers. This is consistent with Commission staff's guidance to Atmos. In addition, the capacity transfer would reduce or eliminate the need for Atmos to obtain winter peaking service. In recent years, peaking service has been difficult for Atmos to obtain, with Atmos receiving few to no bids from RFPs. Therefore the CDS capacity will give Atmos more assurance that it will have sufficient capacity to meet winter demand levels.

Q. Does this conclude your direct testimony?

A. This concludes my direct testimony.