ATMOS ENERGY CORP
Form 10-K
November 13, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-10042

Atmos Energy Corporation

(Exact name of registrant as specified in its charter)

Texas and Virginia	**75-1743247**
(State or other jurisdiction of incorporation or organization)	*(IRS employer identification no.)*
Three Lincoln Centre, Suite 1800 5430 LBJ Freeway, Dallas, Texas	**75240**
(Address of principal executive offices)	*(Zip code)*

Registrant s telephone number, including area code:

(972) 934-9227

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, No Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.45) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of the common voting stock held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter, March 31, 2012, was $2,764,486,845.

As of November 6, 2012, the registrant had 90,240,464 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Definitive Proxy Statement to be filed for the Annual Meeting of Shareholders on February 13, 2013, are incorporated by reference into Part III of this report.

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GLOSSARY OF KEY TERMS

AEC	Atmos Energy Corporation
AEH	Atmos Energy Holdings, Inc.
AEM	Atmos Energy Marketing, LLC
APS	Atmos Pipeline and Storage, LLC
ATO	Trading symbol for Atmos Energy Corporation common stock on the New York Stock Exchange
Bcf	Billion cubic feet
COSO	Committee of Sponsoring Organizations of the Treadway Commission
ERISA	Employee Retirement Income Security Act of 1974
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings, Ltd.
GRIP	Gas Reliability Infrastructure Program
GSRS	Gas System Reliability Surcharge
ISRS	Infrastructure System Replacement Surcharge
KPSC	Kentucky Public Service Commission
LTIP	1998 Long-Term Incentive Plan
Mcf	Thousand cubic feet
MDWQ	Maximum daily withdrawal quantity
Mid-Tex Cities	Represents 440 of the 441 incorporated cities, or approximately 80 percent of the Mid-Tex Division s customers, with whom a settlement agreement was reached during the fiscal 2008 second quarter.
MMcf	Million cubic feet
Moody s	Moody s Investor Services, Inc.
NYMEX	New York Mercantile Exchange, Inc.
NYSE	New York Stock Exchange
PAP	Pension Account Plan
RRC	Railroad Commission of Texas
RRM	Rate Review Mechanism
RSC	Rate Stabilization Clause
S&P	Standard & Poor s Corporation
SEC	United States Securities and Exchange Commission
SRF	Stable Rate Filing
WNA	Weather Normalization Adjustment

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PART I

The terms we, our, us , Atmos Energy and the Company refer to Atmos Energy Corporation and its subsidiaries, unless the context suggests otherwise.

ITEM 1. *Business.*

Overview and Strategy

Atmos Energy Corporation, headquartered in Dallas, Texas, and incorporated in Texas and Virginia, is engaged primarily in the regulated natural gas distribution and transmission and storage businesses as well as other nonregulated natural gas businesses. We deliver natural gas through regulated sales and transportation arrangements to over three million residential, commercial, public authority and industrial customers in nine states located primarily in the South, which makes us one of the country s largest natural-gas-only distributors based on number of customers. We also operate one of the largest intrastate pipelines in Texas based on miles of pipe.

In August 2012, we completed the sale of our natural gas distribution operations in Missouri, Illinois and Iowa, representing approximately 84,000 customers and announced that we had entered into a definitive agreement to sell our natural gas distribution operations in Georgia, representing approximately 64,000 customers. After the closing of the Georgia transaction, we will operate in eight states.

Through our nonregulated businesses, we primarily provide natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers principally in the Midwest and Southeast and natural gas transportation along with storage services to certain of our natural gas distribution divisions and third parties.

Our overall strategy is to:

- deliver superior shareholder value,
- improve the quality and consistency of earnings growth, while safely operating our regulated and nonregulated businesses exceptionally well and
- enhance and strengthen a culture built on our core values.

We have delivered excellent shareholder value by growing our earnings and increasing our dividends for over 25 consecutive years. Through fiscal 2005, we achieved this record of growth through acquisitions while efficiently managing our operating and maintenance expenses and leveraging our technology to achieve more efficient operations. Since that time, we have achieved growth by implementing rate designs that reduce or eliminate regulatory lag and separate the recovery of our approved margins from customer usage patterns. In addition, we have developed various commercial opportunities within our regulated transmission and storage operations.

Our core values include focusing on our employees and customers while conducting our business with honesty and integrity. We continue to strengthen our culture through ongoing communications with our employees and enhanced employee training.

Operating Segments

We operate the Company through the following three segments:

- The *natural gas distribution segment*, which includes our regulated natural gas distribution and related sales operations, The *regulated transmission and storage segment*, which includes the regulated pipeline and storage operations of our Atmos Pipeline Texas Division and

The *nonregulated segment*, which includes our nonregulated natural gas management, nonregulated natural gas transmission, storage and other services.

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These operating segments are described in greater detail below.

Natural Gas Distribution Segment Overview

Our natural gas distribution segment represents approximately 65 percent of our consolidated net income. This segment is comprised of the following six regulated divisions, presented in order of total rate base, covering service areas in nine states:

- Atmos Energy Mid-Tex Division,
- Atmos Energy Kentucky/Mid-States Division,
- Atmos Energy Louisiana Division,
- Atmos Energy West Texas Division,
- Atmos Energy Mississippi Division and
- Atmos Energy Colorado-Kansas Division

Our natural gas distribution business is a seasonal business. Gas sales to residential and commercial customers are greater during the winter months than during the remainder of the year. The volumes of gas sales during the winter months will vary with the temperatures during these months.

Revenues in this operating segment are established by regulatory authorities in the states in which we operate. These rates are intended to be sufficient to cover the costs of conducting business and to provide a reasonable return on invested capital. Our primary service areas are located in Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee and Texas. We have more limited service areas in Georgia and Virginia. See Note 6 in the consolidated financial statements for a description of the completed sale of our Missouri, Illinois and Iowa service areas and the anticipated sale of our Georgia distribution operations. In addition, we transport natural gas for others through our distribution system.

Rates established by regulatory authorities often include cost adjustment mechanisms for costs that (i) are subject to significant price fluctuations compared to our other costs, (ii) represent a large component of our cost of service and (iii) are generally outside our control.

Purchased gas cost adjustment mechanisms represent a common form of cost adjustment mechanism. Purchased gas cost adjustment mechanisms provide natural gas utility companies a method of recovering purchased gas costs on an ongoing basis without filing a rate case because they provide a dollar-for-dollar offset to increases or decreases in natural gas distribution gas costs. Therefore, although substantially all of our natural gas distribution operating revenues fluctuate with the cost of gas that we purchase, natural gas distribution gross profit (which is defined as operating revenues less purchased gas cost) is generally not affected by fluctuations in the cost of gas.

Additionally, some jurisdictions have introduced performance-based ratemaking adjustments to provide incentives to natural gas utilities to minimize purchased gas costs through improved storage management and use of financial instruments to lock in gas costs. Under the performance-based ratemaking adjustment, purchased gas costs savings are shared between the utility and its customers.

Finally, regulatory authorities have approved weather normalization adjustments (WNA) for approximately 97 percent of residential and commercial margins in our service areas as a part of our rates. WNA minimizes the effect of weather that is above or below normal by allowing us to increase customers bills to offset the effect of lower gas usage when weather is warmer than normal and decrease customers bills to offset the effect of higher gas usage when weather is colder than normal.

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As of September 30, 2012 we had WNA for our residential and commercial meters in the following service areas for the following periods:

Georgia, Kansas, West Texas	October May
Kentucky, Mississippi, Tennessee, Mid-Tex	November April
Louisiana	December March
Virginia	January December

Our supply of natural gas is provided by a variety of suppliers, including independent producers, marketers and pipeline companies and withdrawals of gas from proprietary and contracted storage assets. Additionally, the natural gas supply for our Mid-Tex Division includes peaking and spot purchase agreements.

Supply arrangements consist of both base load and swing supply (peaking) quantities and are contracted from our suppliers on a firm basis with various terms at market prices. Base load quantities are those that flow at a constant level throughout the month and swing supply quantities provide the flexibility to change daily quantities to match increases or decreases in requirements related to weather conditions.

Except for local production purchases, we select our natural gas suppliers through a competitive bidding process by periodically requesting proposals from suppliers that have demonstrated that they can provide reliable service. We select these suppliers based on their ability to deliver gas supply to our designated firm pipeline receipt points at the lowest reasonable cost. Major suppliers during fiscal 2012 were Anadarko Energy Services, BP Energy Company, ConocoPhillips, Devon Gas Services, L.P., Enbridge Marketing (US) L.P., Iberdrola Renewables, Inc., National Fuel Marketing Company, LLC, Sequent Energy Management, L.P., Texla Energy Management, Inc. and Atmos Energy Marketing, LLC, our natural gas marketing subsidiary.

The combination of base load, peaking and spot purchase agreements, coupled with the withdrawal of gas held in storage, allows us the flexibility to adjust to changes in weather, which minimizes our need to enter into long-term firm commitments. We estimate our peak-day availability of natural gas supply to be approximately 4.4 Bcf. The peak-day demand for our natural gas distribution operations in fiscal 2012 was on February 11, 2012, when sales to customers reached approximately 3.0 Bcf.

Currently, our natural gas distribution divisions, except for our Mid-Tex Division, utilize 43 pipeline transportation companies, both interstate and intrastate, to transport our natural gas. The pipeline transportation agreements are firm and many of them have pipeline no-notice storage service, which provides for daily balancing between system requirements and nominated flowing supplies. These agreements have been negotiated with the shortest term necessary while still maintaining our right of first refusal. The natural gas supply for our Mid-Tex Division is delivered primarily by our Atmos Pipeline Texas Division.

To maintain our deliveries to high priority customers, we have the ability, and have exercised our right, to curtail deliveries to certain customers under the terms of interruptible contracts or applicable state regulations or statutes. Our customers demand on our system is not necessarily indicative of our ability to meet current or anticipated market demands or immediate delivery requirements because of factors such as the physical limitations of gathering, storage and transmission systems, the duration and severity of cold weather, the availability of gas reserves from our suppliers, the ability to purchase additional supplies on a short-term basis and actions by federal and state regulatory authorities. Curtailment rights provide us the flexibility to meet the human-needs requirements of our customers on a firm basis. Priority allocations imposed by federal and state regulatory agencies, as well as other factors beyond our control, may affect our ability to meet the demands of our customers. We anticipate no problems with obtaining additional gas supply as needed for our customers.

Below, we briefly describe our six natural gas distribution divisions. We operate in our service areas under terms of non-exclusive franchise agreements granted by the various cities and towns that we serve. At September 30, 2012, we held 1,006 franchises having terms generally ranging from five to 35 years. A significant number of our franchises expire each year, which require renewal prior to the end of their terms. We believe that we will be able to renew our franchises as they expire. Additional information concerning our natural gas distribution divisions is presented under the caption Operating Statistics .

Atmos Energy Mid-Tex Division. Our Mid-Tex Division serves approximately 550 incorporated and unincorporated communities in the north-central, eastern and western parts of Texas, including the Dallas/Fort Worth Metroplex. The governing body of each municipality we serve has original jurisdiction over all gas distribution rates, operations and services within its city limits, except with respect to sales of natural gas for vehicle fuel and agricultural use. The Railroad Commission of Texas (RRC) has exclusive appellate jurisdiction over all rate and regulatory orders and ordinances of the municipalities and exclusive original jurisdiction over rates and services to customers not located within the limits of a municipality.

Prior to fiscal 2008, this division operated under one system-wide rate structure. In fiscal 2008, we reached a settlement with cities representing approximately 80 percent of this division s customers that allowed us to update rates for customers in these cities using an annual rate review mechanism (RRM) from fiscal 2008 through fiscal 2011, when the RRM was active. We filed a formal rate case for the Mid-Tex Division in fiscal 2012. After the conclusion of this rate case, we expect to negotiate a new rate review mechanism process. In June 2011, we reached an agreement with the City of Dallas to enter into the Dallas Annual Rate Review (DARR). This rate review provides for an annual rate review without the necessity of filing a general rate case. The first rates were implemented under the DARR in June 2012.

Atmos Energy Kentucky/Mid-States Division. Our Kentucky/Mid-States Division currently operates in more than 230 communities across Georgia, Kentucky, Tennessee and Virginia. The service areas in these states are primarily rural; however, this division serves Franklin, Tennessee and other suburban areas of Nashville. We update our rates in this division through periodic formal rate filings made with each state s public service commission.

On August 1, 2012, we completed the divestiture of our natural gas distribution operations in Missouri, Illinois and Iowa, representing approximately 84,000 customers in 189 communities, with some of the Missouri communities located in our Atmos Energy Colorado-Kansas Division. On August 8, 2012, we announced that we had entered into a definitive agreement to sell our natural gas distribution operations in Georgia, representing approximately 64,000 customers in 19 communities. See Note 6 in the consolidated financial statements for further information regarding these divestitures.

Atmos Energy Louisiana Division. In Louisiana, we serve nearly 300 communities, including the suburban areas of New Orleans, the metropolitan area of Monroe and western Louisiana. Direct sales of natural gas to industrial customers in Louisiana, who use gas for fuel or in manufacturing processes, and sales of natural gas for vehicle fuel are exempt from regulation and are recognized in our nonregulated segment. Our rates in this division are updated annually through a rate stabilization clause filing without filing a formal rate case.

Atmos Energy West Texas Division. Our West Texas Division serves approximately 80 communities in West Texas, including the Amarillo, Lubbock and Midland areas. Like our Mid-Tex Division, each municipality we serve has original jurisdiction over all gas distribution rates, operations and services within its city limits, with the RRC having exclusive appellate jurisdiction over the municipalities and exclusive original jurisdiction over rates and services provided to customers not located within the limits of a municipality. Prior to fiscal 2008, rates were updated in this division through formal rate proceedings. In fiscal 2008 and 2009, we reached an agreement with the West Texas service areas and the Amarillo and Lubbock service areas that allowed us to update rates for customers in these cities using an annual rate review mechanism (RRM) through fiscal 2011, when the RRM was active. We filed a formal rate case for the West Texas Division in fiscal 2012, which was approved on October 2, 2012. We expect to negotiate a new rate review mechanism process in fiscal 2013.

Atmos Energy Mississippi Division. In Mississippi, we serve about 110 communities throughout the northern half of the state, including the Jackson metropolitan area. Our rates in the Mississippi Division are updated annually through a stable rate filing without filing a formal rate case.

Atmos Energy Colorado-Kansas Division. Our Colorado-Kansas Division serves approximately 170 communities throughout Colorado and Kansas, including the cities of Olathe, Kansas, a suburb of Kansas City and Greeley, Colorado, located near Denver. We update our rates in this division through periodic formal rate filings and in Kansas through periodic infrastructure replacement filings made with each state s public service commission.

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The following table provides a jurisdictional rate summary for our regulated operations. This information is for regulatory purposes only and may not be representative of our actual financial position.

Division	Jurisdiction	Effective Date of Last Rate/GRIP Action	Rate Base (thousands)[1]	Authorized Rate of Return[1]	Authorized Return on Equity[1]
Atmos Pipeline Texas	Texas	05/01/2011	$807,733	9.36%	11.80%
Atmos Pipeline Texas GRIP	Texas	04/10/2012	879,752	9.36%	11.80%
Colorado-Kansas	Colorado	01/04/2010	86,189	8.57%	10.25%
	Kansas	09/01/2012	160,075	(2)	(2)
Kentucky/Mid-States	Georgia	02/02/2012	96,338[3]	8.61%	10.50% - 10.90%
	Kentucky	06/01/2010	208,702[4]	(2)	(2)
	Tennessee	04/01/2009	190,100	8.24%	10.30%
	Virginia	11/23/2009	36,861	8.48%	9.50% - 10.50%
Louisiana	Trans LA	04/01/2012	100,575	8.24%	10.00% - 10.80%
	LGS	07/01/2012	284,607	8.27%	10.40%
Mid-Tex Cities	Texas	09/01/2011	1,389,187[5]	8.29%	9.70%
Mid-Tex Dallas	Texas	06/01/2012	1,472,583[5]	8.50%	10.10%
Mid-Tex Environs GRIP	Texas	06/26/2012	1,449,544[5]	8.60%	10.40%
Mississippi	Mississippi	01/11/2012	274,576	8.06%	9.75%
West Texas	Amarillo[6]	08/01/2011	(2)	(2)	9.60%
	Lubbock[6]	09/09/2011	60,892	8.19%	9.60%
	West Texas[6]	08/01/2011	146,039	8.19%	9.60%

Division	Jurisdiction	Authorized Debt/ Equity Ratio	Bad Debt Rider[7]	WNA	Performance-Based Rate Program[8]	Customer Meters
Atmos Pipeline Texas	Texas	50/50	No	N/A	N/A	N/A
Colorado-Kansas	Colorado	50/50	Yes[9]	No	No	111,354
	Kansas	(2)	Yes	Yes	No	129,468
Kentucky/Mid-States	Georgia	50/50	No	Yes	Yes	63,707
	Kentucky	(2)	Yes	Yes	Yes	170,608
	Tennessee	52/48	Yes	Yes	Yes	134,927
	Virginia	51/49	Yes	Yes	No	23,335
Louisiana	Trans LA	52/48	No	Yes	No	75,607
	LGS	52/48	No	Yes	No	277,159
Mid-Tex Cities	Texas	50/50	Yes	Yes	No	1,252,548
Mid-Tex Dallas	Texas	48/52	Yes	Yes	No	250,510
Mid-Tex Environs	Texas	51/49	Yes	Yes	No	62,627
Mississippi	Mississippi	50/50	No	Yes	No	263,302
West Texas	Amarillo[6]	52/48	Yes	Yes	No	70,258
	Lubbock[6]	52/48	Yes	Yes	No	74,244
	West Texas[6]	52/48	Yes	Yes	No	156,935

(1) The rate base, authorized rate of return and authorized return on equity presented in this table are those from the most recent rate case or GRIP filing for each jurisdiction. These rate bases, rates of return and returns on equity are not necessarily indicative of current or future rate bases, rates of return or returns on equity.

(2) A rate base, rate of return, return on equity or debt/equity ratio was not included in the respective state commission s final decision.

(3) Georgia rate base consists of $60.2 million included in the March 2010 rate case and $36.1 million included in the October 2011 Pipeline Replacement Program (PRP) surcharge. A total of $36.1 million of the Georgia

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rate base amount was awarded in the latest PRP annual filing with an effective date of October 1, 2011, an authorized rate of return of 8.68 percent and an authorized return on equity of 10.70 percent.

(4) Kentucky rate base consists of $184.7 million included in the June 2010 rate case and $24.0 million included in the October 2011 PRP surcharge. A total of $24.0 million of the Kentucky rate base amount was awarded in the latest PRP annual filing with an effective date of October 1, 2011, an authorized rate of return of 8.74 percent and an authorized return on equity of 10.50 percent.

(5) The Mid-Tex Rate Base amounts for the Mid-Tex Cities and Dallas & Environs areas represent system-wide , or 100 percent, of the Mid-Tex Division s rate base.

(6) On October 2, 2012, a rate case settlement was approved by the Texas Railroad Commission that combined the former Amarillo, Lubbock and West Texas jurisdictions into a single West Texas jurisdiction.

(7) The bad debt rider allows us to recover from ratepayers the gas cost portion of uncollectible accounts.

(8) The performance-based rate program provides incentives to natural gas utility companies to minimize purchased gas costs by allowing the utility company and its customers to share the purchased gas costs savings.

(9) The recovery of the gas portion of uncollectible accounts gas cost adjustment has been approved for a two-year pilot program.

Regulated Transmission and Storage Segment Overview

Our regulated transmission and storage segment represents approximately 30 percent of our consolidated net income and consists of the regulated pipeline and storage operations of our Atmos Pipeline Texas Division. This division transports natural gas to our Mid-Tex Division, transports natural gas for third parties and manages five underground storage reservoirs in Texas. We also provide ancillary services customary in the pipeline industry including parking and lending arrangements and sales of inventory on hand. Parking arrangements provide short-term interruptible storage of gas on our pipeline. Lending services provide short-term interruptible loans of natural gas from our pipeline to meet market demands. Gross profit earned from our Mid-Tex Division and through certain other transportation and storage services is subject to traditional ratemaking governed by the RRC. Rates are updated through periodic formal rate proceedings and filings made under Texas Gas Reliability Infrastructure Program (GRIP). GRIP allows us to include in our rate base annually approved capital costs incurred in the prior calendar year provided that we file a complete rate case at least once every five years. Atmos Pipeline Texas existing regulatory mechanisms allow certain transportation and storage services to be provided under market-based rates with minimal regulation.

These operations include one of the largest intrastate pipeline operations in Texas with a heavy concentration in the established natural gas-producing areas of central, northern and eastern Texas, extending into or near the major producing areas of the Texas Gulf Coast and the Delaware and Val Verde Basins of West Texas. Nine basins located in Texas are believed to contain a substantial portion of the nation s remaining onshore natural gas reserves with our pipeline system providing access to all of these basins.

Nonregulated Segment Overview

Our nonregulated activities are conducted through Atmos Energy Holdings, Inc. (AEH), which is a wholly-owned subsidiary of Atmos Energy Corporation and operates primarily in the Midwest and Southeast areas of the United States. Currently, this segment represents less than five percent of our consolidated net income.

AEH s primary business is to deliver gas and provide related services by aggregating and purchasing gas supply, arranging transportation and storage logistics and ultimately delivering gas to customers at competitive prices. AEH also earns storage and transportation margins from (i) utilizing its proprietary 21-mile pipeline located in New Orleans, Louisiana to aggregate gas supply for our regulated natural gas distribution division in Louisiana, its gas delivery activities and, on a more limited basis, for third parties and (ii) managing proprietary storage in Kentucky and Louisiana to supplement the natural gas needs of our natural gas distribution divisions during peak periods. The majority of these margins are generated through demand fees established under contracts with certain of our natural gas distribution divisions that are renewed periodically and subject to regulatory oversight.

AEH utilizes customer-owned or contracted storage capacity to serve its customers. In an effort to offset the demand fees paid to contract for storage capacity and to maximize the value of this capacity, AEH sells financial

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instruments in an effort to earn a gross profit margin through the arbitrage of pricing differences in various locations and by recognizing pricing differences that occur over time. Certain of these arrangements are with regulated affiliates, which have been approved by applicable state regulatory commissions.

Ratemaking Activity

Overview

The method of determining regulated rates varies among the states in which our regulated businesses operate. The regulatory authorities have the responsibility of ensuring that utilities in their jurisdictions operate in the best interests of customers while providing utility companies the opportunity to earn a reasonable return on their investment. Generally, each regulatory authority reviews rate requests and establishes a rate structure intended to generate revenue sufficient to cover the costs of conducting business and to provide a reasonable return on invested capital.

Our rate strategy focuses on reducing or eliminating regulatory lag, obtaining adequate returns and providing stable, predictable margins, which benefit both our customers and the Company. As a result of our ratemaking efforts in recent years, Atmos Energy has:

Annual ratemaking mechanisms in place in four states that provide for an annual rate review and adjustment to rates for approximately 77 percent of our natural gas distribution gross margin.

Accelerated recovery of capital for approximately 74 percent of our natural gas distribution gross margin.

WNA mechanisms in eight states that serve to minimize the effects of weather on approximately 97 percent of our natural gas distribution gross margin.

The ability to recover the gas cost portion of bad debts for approximately 75 percent of our natural gas distribution gross margin.
Although substantial progress has been made in recent years by improving rate design across Atmos Energy s operating areas, we will continue to seek improvements in rate design to address cost variations that are related to pass-through energy costs beyond our control. Further, potential changes in federal energy policy and adverse economic conditions will necessitate continued vigilance by the Company and our regulators in meeting the challenges presented by these external factors.

Recent Ratemaking Activity

Substantially all of our regulated revenues in the fiscal years ended September 30, 2012, 2011 and 2010 were derived from sales at rates set by or subject to approval by local or state authorities. Net operating income increases resulting from ratemaking activity totaling $30.7 million, $72.4 million and $56.8 million, became effective in fiscal 2012, 2011 and 2010, as summarized below:

	Annual Increase to Operating Income For the Fiscal Year Ended September 30		
Rate Action	**2012**	**2011**	**2010**
		(In thousands)	
Rate case filings	$ 4,309	$ 20,502	$ 23,663
Infrastructure programs	19,172	15,033	18,989
Annual rate filing mechanisms	7,044	35,216	13,757
Other ratemaking activity	167	1,675	392
	$ 30,692	$ 72,426	$ 56,801

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Additionally, the following ratemaking efforts were initiated during fiscal 2012 but had not been completed as of September 30, 2012:

Division	Rate Action	Jurisdiction	Operating Income Requested (In thousands)
Kentucky/Mid-States	PRP[1]	Georgia	$ 1,079
	PRP[1]	Kentucky	2,425
	PRP[1]	Virginia	101
	Rate Case[2]	Tennessee	11,230
	GRAM[3]	Georgia	1,079
Mississippi	Stable Rate Filing	Mississippi	4,830
Mid-Tex	Rate Case[4]	Railroad Commission of Texas (RRC)	46,537
West Texas	Rate Case[5]	RRC	9,427
			$ 76,708

(1) The Pipeline Replacement Program (PRP) surcharge relates to a long-term program to replace aging infrastructure. The Georgia, Kentucky and Virginia PRPs were implemented on October 1, 2012.

(2) A settlement was approved on November 7, 2012 for an operating income increase of $7.5 million.

(3) Georgia Rate Adjustment Mechanism

(4) A hearing was conducted in September 2012. A final order is expected in December 2012.

(5) On October 2, 2012, the RRC approved a $6.6 million operating income increase.

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Our recent ratemaking activity is discussed in greater detail below.

Rate Case Filings

A rate case is a formal request from Atmos Energy to a regulatory authority to increase rates that are charged to customers. Rate cases may also be initiated when the regulatory authorities request us to justify our rates. This process is referred to as a show cause action. Adequate rates are intended to provide for recovery of the Company s costs as well as a fair rate of return to our shareholders and ensure that we continue to safely deliver reliable, reasonably priced natural gas service to our customers. The following table summarizes our recent rate cases:

Division	State	Increase in Annual Operating Income (In thousands)		Effective Date
2012 Rate Case Filings:				
Colorado-Kansas	Kansas	$	3,764	09/01/2012
West Texas Environs	Texas		545	11/08/2011
Total 2012 Rate Case Filings		$	4,309	
2011 Rate Case Filings:				
West Texas Amarillo Environs	Texas	$	78	07/26/2011
Atmos Pipeline Texas	Texas		20,424	05/01/2011
Total 2011 Rate Case Filings		$	20,502	
2010 Rate Case Filings:				
Kentucky/Mid-States	Missouri	$	3,977	09/01/2010
Colorado-Kansas	Kansas		3,855	08/01/2010
Kentucky/Mid-States	Kentucky		6,636	06/01/2010
Kentucky/Mid-States	Georgia		2,935	03/31/2010
Mid-Tex	Texas[(1)]		2,963	01/26/2010
Colorado-Kansas	Colorado		1,900	01/04/2010
Kentucky/Mid-States	Virginia		1,397	11/23/2009
Total 2010 Rate Case Filings		$	23,663	

(1) In its final order, the RRC approved a $3.0 million increase in operating income from customers in the Dallas & Environs portion of the Mid-Tex Division. Operating income should increase $0.2 million, net of the GRIP 2008 rates that will be superseded. The ruling also provided for regulatory accounting treatment for certain costs related to storage assets and costs moving from our Mid-Tex Division within our natural gas distribution segment to our regulated transmission and storage segment.

Infrastructure Programs

As discussed above in Natural Gas Distribution Segment Overview and Regulated Transmission and Storage Segment Overview, infrastructure programs such as GRIP allow our regulated companies the opportunity to include in their rate base annually approved capital costs incurred in the prior calendar year. We currently have infrastructure programs in Texas, Georgia and Kentucky. The following table summarizes our infrastructure program filings with effective dates during the fiscal years ended September 30, 2012, 2011 and 2010:

Division	Period End	Incremental Net Utility Plant Investment (In thousands)	Increase in Annual Operating Income (In thousands)	Effective Date
2012 Infrastructure Programs:				
Mid-Tex Unincorporated (Environs)[1]	12/2011	$ 145,671	$ 744	06/26/2012
Atmos Pipeline Texas	12/2011	87,210	14,684	04/10/2012
Kentucky/Mid-States Georgia[2]	09/2010	7,160	1,215	10/01/2011
Kentucky/Mid-States Kentucky[2]	09/2012	17,347	2,529	10/01/2011
Total 2012 Infrastructure Programs		$ 257,388	$ 19,172	
2011 Infrastructure Programs:				
Atmos Pipeline Texas	12/2010	$ 72,980	$ 12,605	07/26/2011
Mid-Tex/Environs	12/2010	107,840	576	06/27/2011
West Texas/Lubbock & WT Cities Environs	12/2010	17,677	343	06/01/2011
Kentucky/Mid-States Kentucky[2]	09/2011	3,329	468	06/01/2011
Kentucky/Mid-States Missouri[3]	09/2010	2,367	277	02/14/2011
Kentucky/Mid-States Georgia[2]	09/2009	5,359	764	10/01/2010
Total 2011 Infrastructure Programs		$ 209,552	$ 15,033	
2010 Infrastructure Programs:				
Mid-Tex[4]	12/2009	$ 16,957	$ 2,983	09/01/2010
West Texas	12/2009	19,158	363	06/14/2010
Atmos Pipeline Texas	12/2009	95,504	13,405	04/20/2010
Kentucky/Mid-States Missouri[3]	06/2009	3,578	563	03/02/2010
Colorado-Kansas Kansas[5]	08/2009	6,917	766	12/12/2009
Kentucky/Mid-States Georgia[2]	09/2008	6,327	909	10/01/2009
Total 2010 Infrastructure Programs		$ 148,441	$ 18,989	

(1) Incremental net utility plant investment represents the system-wide incremental investment for the Mid-Tex Division. The increase in annual operating income is for the unincorporated areas of the Mid-Tex Division only.

(2) The Pipeline Replacement Program (PRP) surcharge relates to a long-term program to replace aging infrastructure.

(3) Infrastructure System Replacement Surcharge (ISRS) relates to maintenance capital investments made since the previous rate case.

(4) Increase relates to the City of Dallas and Environs areas of the Mid-Tex Division.

(5) Gas System Reliability Surcharge (GSRS) relates to safety related investments made since the previous rate case.

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Annual Rate Filing Mechanisms

As an instrument to reduce regulatory lag, annual rate filing mechanisms allow us to refresh our rates on a periodic basis without filing a formal rate case. However, these filings still involve discovery by the appropriate regulatory authorities prior to the final determination of rates under these mechanisms. As discussed above in Natural Gas Distribution Segment Overview, we currently have annual rate filing mechanisms in our Louisiana, Mississippi and Georgia divisions and in a portion of our Texas divisions. These mechanisms are referred to as Dallas annual rate review (DARR) in our Mid-Tex Division, stable rate filings in the Mississippi Division, the rate stabilization clause in the Louisiana Division, the Georgia Rate Adjustment Mechanism (GRAM) in the Georgia Division and previously as rate review mechanisms (RRM) in our Texas divisions. The following table summarizes filings made under our various annual rate filing mechanisms:

Division	Jurisdiction	Test Year Ended	Increase (Decrease) in Annual Operating Income (In thousands)	Effective Date
2012 Filings:				
Louisiana	LGS	12/31/2011	$ 2,324	07/01/2012
Mid-Tex	Dallas	09/30/2011	1,204	06/01/2012
Louisiana	Trans La	09/30/2011	11	04/01/2012
Kentucky/Mid-States	Georgia	09/30/2011	(818)	02/01/2012
Mississippi	Mississippi	06/30/2011	4,323	01/11/2012
Total 2012 Filings			$ 7,044	
2011 Filings:				
Mid-Tex	Settled Cities	12/31/2010	$ 5,126	09/27/2011
Mid-Tex	Dallas	12/31/2010	1,084	09/27/2011
West Texas	Lubbock	12/31/2010	319	09/08/2011
West Texas	Amarillo	12/31/2010	(492)	08/01/2011
Louisiana	LGS	12/31/2010	4,109	07/01/2011
Mid-Tex	Dallas	12/31/2010	1,598	07/01/2011
Louisiana	TransLa	09/30/2010	350	04/01/2011
Mid-Tex	Settled Cities	12/31/2009	23,122	10/01/2010
Total 2011 Filings			$ 35,216	
2010 Filings:				
West Texas	Lubbock	12/31/2009	$ (902)	09/01/2010
West Texas	WT Cities	12/31/2009	700	08/15/2010
West Texas	Amarillo	12/31/2009	1,200	08/01/2010
Louisiana	LGS	12/31/2009	3,854	07/01/2010
Louisiana	TransLa	09/30/2009	1,733	04/01/2010
Mississippi	Mississippi	06/30/2009	3,183	12/15/2009
West Texas	Lubbock	12/31/2008	2,704	10/01/2009
West Texas	Amarillo	12/31/2008	1,285	10/01/2009
Total 2010 Filings			$ 13,757	

Beginning in fiscal year 2008, we entered into RRM mechanisms within our Mid-Tex and West Texas divisions. Throughout the period of fiscal 2008 through fiscal 2011, when the RRM mechanisms were active, we were able to successfully implement new base rates within the various cities of both divisions. In fiscal 2012, we filed a rate case in both the Mid-Tex Division (for all cities except Dallas) and the West Texas Division. Following the conclusion of the Mid-Tex Division case, we expect to negotiate a new rate review mechanism process with each of the cities within both the Mid-Tex and West Texas divisions.

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We continue to operate under an annual rate mechanism, DARR, with the City of Dallas, which was approved in June 2011. The first rates were implemented under the DARR in June 2012.

During fiscal 2011, the RRC s Division of Public Safety issued a new rule requiring natural gas distribution companies to develop and implement a risk-based program for the renewal or replacement of distribution facilities, including steel service lines. The rule allows for the deferral of all expense associated with capital expenditures incurred pursuant to this rule, including the recording of interest on the deferred expenses.

Other Ratemaking Activity

The following table summarizes other ratemaking activity during the fiscal years ended September 30, 2012, 2011 and 2010:

Division	Jurisdiction	Rate Activity	Increase in Annual Operating Income (In thousands)	Effective Date
2012 Other Rate Activity:				
Colorado-Kansas	Kansas	Ad Valorem[1]	$ 167	01/14/2012
Total 2012 Other Rate Activity			$ 167	
2011 Other Rate Activity:				
West Texas	Triangle	Special Contract	$ 641	07/01/2011
Colorado-Kansas	Kansas	Ad Valorem[1]	685	01/01/2011
Colorado-Kansas	Colorado	AMI[2]	349	12/01/2010
Total 2011 Other Rate Activity			$ 1,675	
2010 Other Rate Activity:				
Colorado-Kansas	Kansas	Ad Valorem[1]	$ 392	01/05/2010
Total 2010 Other Rate Activity			$ 392	

(1) The Ad Valorem filing relates to a collection of property taxes in excess of the amount included in our Kansas service area s base rates.

(2) Automated Meter Infrastructure (AMI) relates to a pilot program in the Weld County area of our Colorado service area.

Other Regulation

Each of our natural gas distribution divisions as well as our regulated transmission and storage division is regulated by various state or local public utility authorities. We are also subject to regulation by the United States Department of Transportation with respect to safety requirements in the operation and maintenance of our transmission and distribution facilities. In addition, our distribution operations are also subject to various state and federal laws regulating environmental matters. From time to time we receive inquiries regarding various environmental matters. We believe that our properties and operations substantially comply with, and are operated in substantial conformity with, applicable safety and environmental statutes and regulations. There are no administrative or judicial proceedings arising under environmental quality statutes pending or known to be contemplated by governmental agencies which would have a material adverse effect on us or our operations. Our environmental claims have arisen primarily from former manufactured gas plant sites.

The Federal Energy Regulatory Commission (FERC) allows, pursuant to Section 311 of the Natural Gas Policy Act, gas transportation services through our Atmos Pipeline Texas assets on behalf of interstate pipelines or local distribution companies served by interstate pipelines, without subjecting these assets to the jurisdiction of the FERC. Additionally, the FERC has regulatory authority over the sale of natural gas in the wholesale gas market and the use and release of interstate pipeline and storage capacity, as well as authority to detect and prevent market manipulation and to enforce compliance with FERC s other rules, policies and orders

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by companies engaged in the sale, purchase, transportation or storage of natural gas in interstate commerce. We have taken what we believe are the necessary and appropriate steps to comply with these regulations.

Competition

Although our natural gas distribution operations are not currently in significant direct competition with any other distributors of natural gas to residential and commercial customers within our service areas, we do compete with other natural gas suppliers and suppliers of alternative fuels for sales to industrial customers. We compete in all aspects of our business with alternative energy sources, including, in particular, electricity. Electric utilities offer electricity as a rival energy source and compete for the space heating, water heating and cooking markets. Promotional incentives, improved equipment efficiencies and promotional rates all contribute to the acceptability of electrical equipment. The principal means to compete against alternative fuels is lower prices, and natural gas historically has maintained its price advantage in the residential, commercial and industrial markets.

Our regulated transmission and storage operations historically have faced limited competition from other existing intrastate pipelines and gas marketers seeking to provide or arrange transportation, storage and other services for customers. However, in the last few years, several new pipelines have been completed, which has increased the level of competition in this segment of our business.

Within our nonregulated operations, AEM competes with other natural gas marketers to provide natural gas management and other related services primarily to smaller customers requiring higher levels of balancing, scheduling and other related management services. AEM has experienced increased competition in recent years primarily from investment banks and major integrated oil and natural gas companies who offer lower cost, basic services. The increased competition has reduced margins most notably on its high-volume accounts.

Employees

At September 30, 2012, we had 4,759 employees, consisting of 4,646 employees in our regulated operations and 113 employees in our nonregulated operations.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports, and amendments to those reports, and other forms that we file with or furnish to the Securities and Exchange Commission (SEC) are available free of charge at our website, *www.atmosenergy.com*, under Publications and Filings under the Investors tab, as soon as reasonably practicable, after we electronically file these reports with, or furnish these reports to, the SEC. We will also provide copies of these reports free of charge upon request to Shareholder Relations at the address and telephone number appearing below:

Shareholder Relations

Atmos Energy Corporation

P.O. Box 650205

Dallas, Texas 75265-0205

972-855-3729

Corporate Governance

In accordance with and pursuant to relevant related rules and regulations of the SEC as well as corporate governance-related listing standards of the New York Stock Exchange (NYSE), the Board of Directors of the Company has established and periodically updated our Corporate Governance Guidelines and Code of Conduct, which is applicable to all directors, officers and employees of the Company. In addition, in accordance with and pursuant to such NYSE listing standards, our Chief Executive Officer during fiscal 2012, Kim R. Cocklin, certified to the New York Stock Exchange that he was not aware of any violations by the Company of NYSE corporate governance listing standards. The Board of Directors also annually reviews and updates, if necessary, the charters for each of its Audit, Human Resources and Nominating and Corporate Governance Committees. All of the foregoing documents are posted on the Corporate Governance page of our website. We will also provide copies of all corporate governance documents free of charge upon request to Shareholder Relations at the address listed above.

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ITEM 1A. ***Risk Factors.***

Our financial and operating results are subject to a number of risk factors, many of which are not within our control. Although we have tried to discuss key risk factors below, please be aware that other or new risks may prove to be important in the future. Investors should carefully consider the following discussion of risk factors as well as other information appearing in this report. These factors include the following:

Disruptions in the credit markets could limit our ability to access capital and increase our costs of capital.

We rely upon access to both short-term and long-term credit markets to satisfy our liquidity requirements. The global credit markets have experienced significant disruptions and volatility during the last few years to a greater degree than has been seen in decades. In some cases, the ability or willingness of traditional sources of capital to provide financing has been reduced.

Our long-term debt is currently rated as investment grade by Standard & Poor s Corporation, Moody s Investors Services, Inc. and Fitch Ratings, Ltd. If adverse credit conditions were to cause a significant limitation on our access to the private and public credit markets, we could see a reduction in our liquidity. A significant reduction in our liquidity could in turn trigger a negative change in our ratings outlook or even a reduction in our credit ratings by one or more of the three credit rating agencies. Such a downgrade could further limit our access to public and/or private credit markets and increase the costs of borrowing under each source of credit.

Further, if our credit ratings were downgraded, we could be required to provide additional liquidity to our nonregulated segment because the commodity financial instrument markets could become unavailable to us. Our nonregulated segment depends primarily upon a committed credit facility to finance its working capital needs, which it uses primarily to issue standby letters of credit to its natural gas suppliers. A significant reduction in the availability of this facility could require us to provide extra liquidity to support its operations or reduce some of the activities of our nonregulated segment. Our ability to provide extra liquidity is limited by the terms of our existing lending arrangements with AEH, which are subject to annual approval by one state regulatory commission.

While we believe we can meet our capital requirements from our operations and the sources of financing available to us, we can provide no assurance that we will continue to be able to do so in the future, especially if the market price of natural gas increases significantly in the near-term. The future effects on our business, liquidity and financial results of a further deterioration of current conditions in the credit markets could be material and adverse to us, both in the ways described above or in other ways that we do not currently anticipate.

The continuation of recent economic conditions could adversely affect our customers and negatively impact our financial results.

The slowdown in the U.S. economy in the last few years, together with increased mortgage defaults and significant decreases in the values of homes and investment assets, has adversely affected the financial resources of many domestic households. It is unclear whether the administrative and legislative responses to these conditions will be successful in improving current economic conditions, including the lowering of current high unemployment rates across the U.S. As a result, our customers may seek to use even less gas and it may become more difficult for them to pay their gas bills. This may slow collections and lead to higher than normal levels of accounts receivable. This in turn could increase our financing requirements and bad debt expense. Additionally, our industrial customers may seek alternative energy sources, which could result in lower sales volumes.

The costs of providing pension and postretirement health care benefits and related funding requirements are subject to changes in pension fund values, changing demographics and fluctuating actuarial assumptions and may have a material adverse effect on our financial results. In addition, the passage of the Health Care Reform Act in 2010 could significantly increase the cost of health care benefits for our employees. Further, the costs to the Company of providing such benefits and related funding requirements are subject to the continued and timely recovery of such costs through our rates.

We provide a cash-balance pension plan and postretirement healthcare benefits to eligible full-time employees. The costs of providing such benefits and related funding requirements could be influenced by changes in the market value of the assets funding our pension and postretirement healthcare plans. Any significant declines in the value of these investments could increase the costs of our pension and postretirement healthcare plans and related funding requirements in the future. Further, our costs of providing such benefits and related funding requirements are also subject to a number of factors, including (i) changing demographics, including longer life expectancy of beneficiaries and an expected increase in the number of eligible former employees over the next five to ten years; and (ii) various actuarial calculations and assumptions, which may differ materially from actual results due primarily to changing market and economic conditions and higher or lower withdrawal rates.

In addition, the costs of providing health care benefits to our employees could significantly increase over the next five to ten years due primarily to the Health Care Reform Act of 2010. Although the full effects of the Act should not impact the Company until 2014, the future costs of compliance with its provisions are difficult to measure at this time. Also, the costs to the Company of providing such benefits and related funding requirements could also increase materially in the future, depending on the timing of the recovery, if any, of such costs through our rates.

Our risk management operations are exposed to market risks that are beyond our control, which could adversely affect our financial results and capital requirements.

Our risk management operations are subject to market risks beyond our control, including market liquidity, commodity price volatility caused by market supply and demand dynamics and counterparty creditworthiness. Although we maintain a risk management policy, we may not be able to completely offset the price risk associated with volatile gas prices, particularly in our nonregulated business segment, which could lead to volatility in our earnings.

Physical trading in our nonregulated business segment also introduces price risk on any net open positions at the end of each trading day, as well as volatility resulting from intra-day fluctuations of gas prices and the potential for daily price movements between the time natural gas is purchased or sold for future delivery and the time the related purchase or sale is hedged. The determination of our net open position as of the end of any particular trading day requires us to make assumptions as to future circumstances, including the use of gas by our customers in relation to our anticipated storage and market positions. Because the price risk associated with any net open position at the end of such day may increase if the assumptions are not realized, we review these assumptions as part of our daily monitoring activities. Although we manage our business to maintain no open positions, there are times when limited net open positions related to our physical storage may occur on a short-term basis. Net open positions may increase volatility in our financial condition or results of operations if market prices move in a significantly favorable or unfavorable manner before the open positions can be closed.

Further, the timing of the recognition for financial accounting purposes of gains or losses resulting from changes in the fair value of derivative financial instruments designated as hedges usually does not match the timing of the economic profits or losses on the item being hedged. This volatility may occur with a resulting increase or decrease in earnings or losses, even though the expected profit margin is essentially unchanged from the date the transactions were consummated. Also, if the local physical markets in which we trade do not move consistently with the NYMEX futures market upon which most of our commodity derivative financial instruments are valued, we could experience increased volatility in the financial results of our nonregulated segment.

Our nonregulated segment manages margins and limits risk exposure on the sale of natural gas inventory or the offsetting fixed-price purchase or sale commitments for physical quantities of natural gas through the use of a variety of financial instruments. However, contractual limitations could adversely affect our ability to withdraw gas from storage, which could cause us to purchase gas at spot prices in a rising market to obtain sufficient volumes to fulfill customer contracts. We could also realize financial losses on our efforts to limit risk as a result of volatility in the market prices of the underlying commodities or if a counterparty fails to perform under a contract. Any significant tightening of the credit markets could cause more of our counterparties to fail to perform than expected. In addition, adverse changes in the creditworthiness of our counterparties could limit the level of trading activities with these parties and increase the risk that these parties may not perform under a contract. These circumstances could also increase our capital requirements.

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We are also subject to interest rate risk on our borrowings. In recent years, we have been operating in a relatively low interest-rate environment compared to historical norms for both short and long-term interest rates. However, increases in interest rates could adversely affect our future financial results.

We are subject to state and local regulations that affect our operations and financial results.

Our natural gas distribution and regulated transmission and storage segments are subject to various regulated returns on our rate base in each jurisdiction in which we operate. We monitor the allowed rates of return and our effectiveness in earning such rates and initiate rate proceedings or operating changes as we believe they are needed. In addition, in the normal course of business in the regulatory environment, assets may be placed in service and historical test periods established before rate cases can be filed that could result in an adjustment of our allowed returns. Once rate cases are filed, regulatory bodies have the authority to suspend implementation of the new rates while studying the cases. Because of this process, we must suffer the negative financial effects of having placed assets in service without the benefit of rate relief, which is commonly referred to as regulatory lag. Rate cases also involve a risk of rate reduction, because once rates have been approved, they are still subject to challenge for their reasonableness by appropriate regulatory authorities. In addition, regulators may review our purchases of natural gas and can adjust the amount of our gas costs that we pass through to our customers. Finally, our debt and equity financings are also subject to approval by regulatory commissions in several states, which could limit our ability to access or take advantage of rapid changes in the capital markets.

We may experience increased federal, state and local regulation of the safety of our operations.

We are committed to constantly monitoring and maintaining our pipeline and distribution system to ensure that natural gas is delivered safely, reliably and efficiently through our network of more than 73,000 miles of pipeline and distribution lines. The pipeline replacement programs currently underway in several of our divisions typify the preventive maintenance and continual renewal that we perform on our natural gas distribution system in the nine states in which we currently operate. The safety and protection of the public, our customers and our employees is our top priority. However, due primarily to the unfortunate pipeline incident in California in 2010, we anticipate companies in the natural gas distribution business may be subjected to even greater federal, state and local oversight of the safety of their operations in the future. Although we believe these costs should be ultimately recoverable through our rates, costs of complying with such increased regulations may have at least a short-term adverse impact on our operating costs and financial results.

Some of our operations are subject to increased federal regulatory oversight that could affect our operations and financial results.

FERC has regulatory authority over some of our operations, including sales of natural gas in the wholesale gas market and the use and release of interstate pipeline and storage capacity. Under legislation passed by Congress in 2005, FERC has adopted rules designed to prevent market power abuse and market manipulation and to promote compliance with FERC s other rules, policies and orders by companies engaged in the sale, purchase, transportation or storage of natural gas in interstate commerce. These rules carry increased penalties for violations. Although we have taken steps to structure current and future transactions to comply with applicable current FERC regulations, changes in FERC regulations or their interpretation by FERC or additional regulations issued by FERC in the future could also adversely affect our business, financial condition or financial results.

We are subject to environmental regulations which could adversely affect our operations or financial results.

We are subject to laws, regulations and other legal requirements enacted or adopted by federal, state and local governmental authorities relating to protection of the environment and health and safety matters, including those legal requirements that govern discharges of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, groundwater quality and availability, plant and wildlife protection, as well as work practices related to employee health and safety. Environmental legislation also requires that our facilities, sites and other properties associated with our operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities.

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Failure to comply with these laws, regulations, permits and licenses may expose us to fines, penalties or interruptions in our operations that could be significant to our financial results. In addition, existing environmental regulations may be revised or our operations may become subject to new regulations.

Our business may be subject in the future to additional regulatory and financial risks associated with global warming and climate change.

There have been a number of federal and state legislative and regulatory initiatives proposed in recent years in an attempt to control or limit the effects of global warming and overall climate change, including greenhouse gas emissions, such as carbon dioxide. The adoption of this type of legislation by Congress or similar legislation by states or the adoption of related regulations by federal or state governments mandating a substantial reduction in greenhouse gas emissions in the future could have far-reaching and significant impacts on the energy industry. Such new legislation or regulations could result in increased compliance costs for us or additional operating restrictions on our business, affect the demand for natural gas or impact the prices we charge to our customers. At this time, we cannot predict the potential impact of such laws or regulations that may be adopted on our future business, financial condition or financial results.

The concentration of our distribution, pipeline and storage operations in the State of Texas exposes our operations and financial results to economic conditions and regulatory decisions in Texas.

Over 50 percent of our natural gas distribution customers and most of our pipeline and storage assets and operations are located in the State of Texas. This concentration of our business in Texas means that our operations and financial results may be significantly affected by changes in the Texas economy in general and regulatory decisions by state and local regulatory authorities in Texas.

Adverse weather conditions could affect our operations or financial results.

We have weather-normalized rates for over 95 percent of our residential and commercial meters, which substantially mitigates the adverse effects of warmer-than-normal weather for meters in those service areas. However, there is no assurance that we will continue to receive such regulatory protection from adverse weather in our rates in the future. The loss of such weather normalized rates could have an adverse effect on our operations and financial results. In addition, our natural gas distribution and regulated transmission and storage operating results may continue to vary somewhat with the actual temperatures during the winter heating season. Sustained cold weather could adversely affect our nonregulated operations as we may be required to purchase gas at spot rates in a rising market to obtain sufficient volumes to fulfill some customer contracts. Additionally, sustained cold weather could challenge our ability to adequately meet customer demand in our natural gas distribution and regulated transmission and storage operations.

Inflation and increased gas costs could adversely impact our customer base and customer collections and increase our level of indebtedness.

Inflation has caused increases in some of our operating expenses and has required assets to be replaced at higher costs. We have a process in place to continually review the adequacy of our natural gas distribution gas rates in relation to the increasing cost of providing service and the inherent regulatory lag in adjusting those gas rates. Historically, we have been able to budget and control operating expenses and investments within the amounts authorized to be collected in rates and intend to continue to do so. However, the ability to control expenses is an important factor that could impact future financial results.

Rapid increases in the costs of purchased gas would cause us to experience a significant increase in short-term debt. We must pay suppliers for gas when it is purchased, which can be significantly in advance of when these costs may be recovered through the collection of monthly customer bills for gas delivered. Increases in purchased gas costs also slow our natural gas distribution collection efforts as customers are more likely to delay the payment of their gas bills, leading to higher than normal accounts receivable. This could result in higher short-term debt levels, greater collection efforts and increased bad debt expense.

Our growth in the future may be limited by the nature of our business, which requires extensive capital spending.

We must continually build additional capacity in our natural gas distribution system to enable us to serve any growth in the number of our customers. The cost of adding this capacity may be affected by a number of factors, including the general state of the economy and weather. In addition, although we should ultimately recover the cost of the expenditures through rates, we must make significant capital expenditures to comply with the recent rule issued by the RRC s Division of Public Safety that requires natural gas distribution companies to develop and implement a risk-based program for the renewal or replacement of distribution facilities, including steel service lines. Our cash flows from operations generally are sufficient to supply funding for all our capital expenditures, including the financing of the costs of new construction along with capital expenditures necessary to maintain our existing natural gas system. Due to the timing of these cash flows and capital expenditures, we often must fund at least a portion of these costs through borrowing funds from third party lenders, the cost and availability of which is dependent on the liquidity of the credit markets, interest rates and other market conditions. This in turn may limit our ability to connect new customers to our system due to constraints on the amount of funds we can invest in our infrastructure.

Our operations are subject to increased competition.

In residential and commercial customer markets, our natural gas distribution operations compete with other energy products, such as electricity and propane. Our primary product competition is with electricity for heating, water heating and cooking. Increases in the price of natural gas could negatively impact our competitive position by decreasing the price benefits of natural gas to the consumer. This could adversely impact our business if, as a result, our customer growth slows, reducing our ability to make capital expenditures, or if our customers further conserve their use of gas, resulting in reduced gas purchases and customer billings.

In the case of industrial customers, such as manufacturing plants, adverse economic conditions, including higher gas costs, could cause these customers to use alternative sources of energy, such as electricity, or bypass our systems in favor of special competitive contracts with lower per-unit costs. Our regulated transmission and storage operations historically have faced limited competition from other existing intrastate pipelines and gas marketers seeking to provide or arrange transportation, storage and other services for customers. However, in the last few years, several new pipelines have been completed, which has increased the level of competition in this segment of our business. Within our nonregulated operations, AEM competes with other natural gas marketers to provide natural gas management and other related services primarily to smaller customers requiring higher levels of balancing, scheduling and other related management services. AEM has experienced increased competition in recent years primarily from investment banks and major integrated oil and natural gas companies who offer lower cost, basic services.

Cyber-attacks or acts of cyber-terrorism could disrupt our business operations and information technology systems or result in the loss or exposure of confidential or sensitive customer, employee or Company information.

Our business operations and information technology systems may be vulnerable to an attack by individuals or organizations intending to disrupt our business operations and information technology systems. We use such systems to manage our natural gas distribution and intrastate pipeline operations and other business processes. Disruption of those systems could adversely impact our ability to safely deliver natural gas to our customers, operate our pipeline systems or serve our customers timely. Accordingly, if such an attack or act of terrorism were to occur, our operations and financial results could be adversely affected. In addition, we use our information technology systems to protect confidential or sensitive customer, employee and Company information developed and maintained in the normal course of our business. Any attack on such systems that would result in the unauthorized release of customer, employee or other confidential or sensitive data could have a material adverse effect on our business reputation, increase our costs and expose us to additional material legal claims and liability. As a result, if such an attack or act of terrorism were to occur, our operations and financial results could be adversely affected.

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Distributing, transporting and storing natural gas involve risks that may result in accidents and additional operating costs.

Our natural gas distribution and pipeline and storage businesses involve a number of hazards and operating risks that cannot be completely avoided, such as leaks, accidents and operational problems, which could cause loss of human life, as well as substantial financial losses resulting from property damage, damage to the environment and to our operations. We maintain liability and property insurance coverage in place for many of these hazards and risks. However, because some of our pipeline, storage and distribution facilities are near or are in populated areas, any loss of human life or adverse financial results resulting from such events could be large. If these events were not fully covered by insurance, our operations or financial results could be adversely affected.

Natural disasters, terrorist activities or other significant events could adversely affect our operations or financial results.

Natural disasters are always a threat to our assets and operations. In addition, the threat of terrorist activities could lead to increased economic instability and volatility in the price of natural gas that could affect our operations. Also, companies in our industry may face a heightened risk of exposure to actual acts of terrorism, which could subject our operations to increased risks. As a result, the availability of insurance covering such risks may be more limited, which could increase the risk that an event could adversely affect our operations or financial results.

ITEM 1B. ***Unresolved Staff Comments.***

Not applicable.

ITEM 2. ***Properties.***

Distribution, transmission and related assets

At September 30, 2012, our natural gas distribution segment owned an aggregate of 68,072 miles of underground distribution and transmission mains throughout our gas distribution systems. These mains are located on easements or rights-of-way which generally provide for perpetual use. We maintain our mains through a program of continuous inspection and repair and believe that our system of mains is in good condition. Our regulated transmission and storage segment owned 5,698 miles of gas transmission and gathering lines and our nonregulated segment owned 105 miles of gas transmission and gathering lines.

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Storage Assets

We own underground gas storage facilities in several states to supplement the supply of natural gas in periods of peak demand. The following table summarizes certain information regarding our underground gas storage facilities at September 30, 2012:

State	Usable Capacity (Mcf)	Cushion Gas (Mcf)[1]	Total Capacity (Mcf)	Maximum Daily Delivery Capability (Mcf)
Natural Gas Distribution Segment				
Kentucky	4,442,696	6,322,283	10,764,979	105,100
Kansas	3,239,000	2,300,000	5,539,000	45,000
Mississippi	2,211,894	2,442,917	4,654,811	48,000
Georgia	490,000	10,000	500,000	30,000
Total	10,383,590	11,075,200	21,458,790	228,100
Regulated Transmission and Storage Segment Texas	46,143,226	15,878,025	62,021,251	1,235,000
Nonregulated Segment				
Kentucky	3,492,900	3,295,000	6,787,900	71,000
Louisiana	438,583	300,973	739,556	56,000
Total	3,931,483	3,595,973	7,527,456	127,000
Total	60,458,299	30,549,198	91,007,497	1,590,100

(1) Cushion gas represents the volume of gas that must be retained in a facility to maintain reservoir pressure.

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Additionally, we contract for storage service in underground storage facilities on many of the interstate pipelines serving us to supplement our proprietary storage capacity. The following table summarizes our contracted storage capacity at September 30, 2012:

Segment	Division/Company	Maximum Storage Quantity (MMBtu)	Maximum Daily Withdrawal Quantity (MDWQ)[1]
Natural Gas Distribution Segment			
	Colorado-Kansas Division	4,248,409	108,089
	Kentucky/Mid-States Division	16,424,150	440,277
	Louisiana Division	2,636,539	161,393
	Mid-Tex Division	500,000	50,000
	Mississippi Division	3,875,429	165,402
	West Texas Division	3,375,000	106,000
Total		31,059,527	1,031,161
Nonregulated Segment			
	Atmos Energy Marketing, LLC	8,026,869	250,937