

ATMOS ENERGY CORPORATION
MID-TEX DIVISION

RATE SCHEDULE:	RRM – Rate Review Mechanism	
APPLICABLE TO:	ALL CITIES IN THE MID-TEX DIVISION AS IDENTIFIED IN EXHIBIT A TO THIS RATE SCHEDULE	
EFFECTIVE DATE:	Bills Rendered on and after 04/01/2018	PAGE: 1

I. Applicability

Applicable to Residential, Commercial, Industrial, and Transportation tariff customers within the city limits of cities identified in Exhibit A that receive service from the Mid-Tex Division of Atmos Energy Corporation (“Company”). This Rate Review Mechanism (“RRM”) provides for an annual adjustment to the Company’s Rate Schedules R, C, I and T (“Applicable Rate Schedules”). Rate calculations and adjustments required by this tariff shall be determined on a System-Wide cost basis.

II. Definitions

“Test Period” is defined as the twelve months ending December 31 of each preceding calendar year.

The “Effective Date” is the date that adjustments required by this tariff are applied to customer bills. The annual Effective Date is October 1.

Unless otherwise provided in this tariff the term Final Order refers to the final order issued by the Railroad Commission of Texas in GUD No. 10170 and elements of GUD No. 10580 as specified in Section III below.

The term “System-Wide” means all incorporated and unincorporated areas served by the Company.

“Review Period” is defined as the period from the Filing Date until the Effective Date.

The “Filing Date” is as early as practicable, but no later than April 1 of each year.

III. Calculation

The RRM shall calculate an annual, System-Wide cost of service (“COS”) that will be used to adjust applicable rate schedules prospectively as of the Effective Date. The Company may request recovery of its total cost of service but will include schedules showing the computation of any adjustments. The annual cost of service will be calculated according to the following formula:

$$\text{COS} = \text{OM} + \text{DEP} + \text{RI} + \text{TAX} + \text{CD}$$

Where:

OM = all reasonable and necessary operation and maintenance expenses from the Test Period adjusted for known and measurable items and prepared

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consistent with the rate making treatments approved in the Final Order. Incentive compensation (Management Incentive Plan, Variable Pay Plan and Long Term Incentive Plan) related to Atmos' Shared Services Unit will be applied consistent with treatment approved in GUD 10580. Additionally, O&M adjustments will be incorporated and applied as modified by a final order, not subject to appeal, issued by the Railroad Commission of Texas in subsequent rate cases involving the Atmos Mid-Tex or West Texas divisions. Known and measurable adjustments shall be limited to those changes that have occurred prior to the Filing Date. OM may be adjusted for atypical and non-recurring items. Shared Services allocation factors shall be recalculated each year based on the latest component factors used during the Test Period, but the methodology used will be that approved in the Final Order in GUD 10580.

DEP = depreciation expense calculated at depreciation rates approved by the Final Order. Additionally, if depreciation rates are approved in a subsequent final order, not subject to appeal, issued by the Railroad Commission of Texas for the Mid-Tex division those rates would be applicable for subsequent RRM filings.

RI = return on prudently incurred investment calculated as the Company's pretax return multiplied by rate base at Test Period end. Rate base is prepared consistent with the rate making treatments approved in the Final Order, and as in GUD 10580 as specifically related to capitalized incentive compensation (Management Incentive Plan, Variable Pay Plan and Long Term Incentive Plan) for Atmos' Shared Services Unit. However, no post Test Period adjustments will be permitted. Additionally, adjustments will be incorporated and applied as modified by a final order, not subject to appeal, issued by the Railroad Commission of Texas in subsequent rate cases involving the Atmos Mid-Tex or West Texas divisions. Pretax return is the Company's weighted average cost of capital before income taxes. The Company's weighted average cost of capital is calculated using the methodology from the Final Order including the Company's actual capital structure and long term cost of debt as of the Test Period end (adjusted for any known and measurable changes that have occurred prior to the filing date) and the return on equity of 9.8%. However, in no event will the percentage of equity exceed 58%. Regulatory adjustments due to prior regulatory rate base adjustment disallowances will be maintained. Cash working capital will be calculated using the lead/lag days approved in the Final Order. With respect to pension and other postemployment benefits, the Company will record a regulatory asset or liability for these costs until the amounts are included in the next annual rate adjustment implemented under this tariff. Each year, the Company's filing under this Rider RRM will clearly state the level of pension

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and other postemployment benefits recovered in rates.

TAX = income tax and taxes other than income tax from the Test Period adjusted for known and measurable changes occurring after the Test Period and before the Filing Date, and prepared consistent with the rate making treatments approved in the Final Order. Atmos Energy shall comprehensively account for, including establishing a regulatory liability to account for, any statutory change in tax expense that is applicable to months during the Test Period in the calculation to ensure recovery of tax expense under new and old income tax rates.

CD = interest on customer deposits.

IV. Annual Rate Adjustment

The Company shall provide schedules and work papers supporting the Filing's revenue deficiency/sufficiency calculations using the methodology accepted in the Final Order. The result shall be reflected in the proposed new rates to be established for the effective period. The Revenue Requirement will be apportioned to customer classes in the same manner that Company's Revenue Requirement was apportioned in the Final Order. For the Residential Class, 50% of the increase may be recovered in the customer charge. However, the increase to the Residential customer charge shall not exceed \$0.60 per month in the initial filing and \$0.70 per month in any subsequent year. The remainder of the Residential Class increase not collected in the customer charge will be recovered in the usage charge. For all other classes, the change in rates will be apportioned between the customer charge and the usage charge, consistent with the Final Order. Test Period billing determinants shall be adjusted and normalized according to the methodology utilized in the Final Order.

V. Filing

The Company shall file schedules annually with the regulatory authority having original jurisdiction over the Company's rates on or before the Filing Date that support the proposed rate adjustments. The schedules shall be in the same general format as the cost of service model and relied-upon files upon which the Final Order was based. A proof of rates and a copy of current and proposed tariffs shall also be included with the filing. The filing shall be made in electronic form where practical. The Company's filing shall conform to Minimum Filing Requirements (to be agreed upon by the parties), which will contain a minimum amount of information that will assist the regulatory authority in its review and analysis of the filing. The Company and regulatory authority will endeavor to hold a technical conference regarding the filing within twenty (20) calendar days after the Filing Date.

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A sworn statement shall be filed by an Officer of the Company affirming that the filed schedules are in compliance with the provisions of this Rate Review Mechanism and are true and correct to the best of his/her knowledge, information, and belief. No testimony shall be filed, but a brief narrative explanation shall be provided of any changes to corporate structure, accounting methodologies, allocation of common costs, or atypical or non- recurring items included in the filing.

VI. Evaluation Procedures

The regulatory authority having original jurisdiction over the Company's rates shall review and render a decision on the Company's proposed rate adjustment prior to the Effective Date. The Company shall provide all supplemental information requested to ensure an opportunity for adequate review by the relevant regulatory authority. The Company shall not unilaterally impose any limits upon the provision of supplemental information and such information shall be provided within seven (7) working days of the original request. The regulatory authority may propose any adjustments it determines to be required to bring the proposed rate adjustment into compliance with the provisions of this tariff.

The regulatory authority may disallow any net plant investment that is not shown to be prudently incurred. Approval by the regulatory authority of net plant investment pursuant to the provisions of this tariff shall constitute a finding that such net plant investment was prudently incurred. Such finding of prudence shall not be subject to further review in a subsequent RRM or Statement of Intent filing.

During the Review Period, the Company and the regulatory authority will work collaboratively and seek agreement on the level of rate adjustments. If, at the end of the Review Period, the Company and the regulatory authority have not reached agreement, the regulatory authority shall take action to modify or deny the proposed rate adjustments. The Company shall have the right to appeal the regulatory authority's action to the Railroad Commission of Texas. Upon the filing of an appeal of the regulatory authority's order relating to an annual RRM filing with the Railroad Commission of Texas, the regulatory authority having original jurisdiction over the Company's rates shall not oppose the implementation of the Company's proposed rates subject to refund, nor will the regulatory authority advocate for the imposition of a third party surety bond by the Company. Any refund shall be limited to and determined based on the resolution of the disputed adjustment(s) in a final, non-appealable order issued in the appeal filed by the Company at the Railroad Commission of Texas.

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In the event that the regulatory authority and Company agree to a rate adjustment(s) that is different from the adjustment(s) requested in the Company's filing, the Company shall file compliance tariffs consistent with the agreement. No action on the part of the regulatory authority shall be required to allow the rate adjustment(s) to become effective on October 1. To the extent that the regulatory authority does not take action on the Company's RRM filing by September 30, the rates proposed in the Company's filing shall be deemed approved effective October 1. Notwithstanding the preceding sentence, a regulatory authority may choose to take affirmative action to approve a rate adjustment under this tariff. In those instances where such approval cannot reasonably occur by September 30, the rates finally approved by the regulatory authority shall be deemed effective as of October 1.

To defray the cost, if any, of regulatory authorities conducting a review of the Company's annual RRM filing, the Company shall reimburse the regulatory authorities on a monthly basis for their reasonable expenses incurred upon submission of invoices for such review. Any reimbursement contemplated hereunder shall be deemed a reasonable and necessary operating expense of the Company in the year in which the reimbursement is made. A regulatory authority seeking reimbursement under this provision shall submit its request for reimbursement to the Company no later than December 1 of the year in which the RRM filing is made and the Company shall reimburse regulatory authorities in accordance with this provision on or before December 31 of the year the RRM filing is made.

To the extent possible, the provisions of the Final Order shall be applied by the regulatory authority in determining whether to approve or disapprove of Company's proposed rate adjustment.

This Rider RRM does not limit the legal rights and duties of a regulatory authority. Nothing herein shall abrogate the jurisdiction of the regulatory authority to initiate a rate proceeding at any time to review whether rates charged are just and reasonable. Similarly, the Company retains its right to utilize the provisions of Texas Utilities Code, Chapter 104, Subchapter C to request a change in rates. The provisions of this Rider RRM are implemented in harmony with the Gas Utility Regulatory Act (Texas Utilities Code, Chapters 101-105).

The annual rate adjustment process set forth in this tariff shall remain in effect during the pendency of any Statement of Intent rate filing.

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VII. Reconsideration, Appeal and Unresolved Items

Orders issued pursuant to this mechanism are ratemaking orders and shall be subject to appeal under Sections 102.001(b) and 103.021, et seq., of the Texas Utilities Code (Vernon 2007).

VIII. Notice

Notice of each annual RRM filing shall be provided by including the notice, in conspicuous form, in the bill of each directly affected customer no later than forty-five (45) days after the Company makes its annual filing pursuant to this tariff. The notice to customers shall include the following information:

- a) a description of the proposed revision of rates and schedules;
- b) the effect the proposed revision of rates is expected to have on the rates applicable to each customer class and on an average bill for each affected customer;
- c) the service area or areas in which the proposed rates would apply;
- d) the date the annual RRM filing was made with the regulatory authority; and
- e) the Company's address, telephone number and website where information concerning the proposed rate adjustment can be obtained.