



September 19, 2005

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SEP 21 2005

PUBLIC SERVICE
COMMISSION

Honorable Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615

Subject: First Data Request of Commission Staff
Performance-Based Ratemaking Mechanism (PBR)
Case 2005-00321

Dear Ms. O'Donnell:

Enclosed herein is the filing by Atmos Energy Corporation, of its First Data request of the Commission Staff, dated September 7, 2005 in Case Number 2005-00321. This filing includes the original and ten (10) copies.

Please direct all inquiries regarding the enclosed filing to me at the address below, or you may call me at (270) 685-8024.

Sincerely,

A handwritten signature in cursive script that reads "Gary L. Smith".

Gary L. Smith
V.P. Marketing and Regulatory Affairs

Enclosures

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SEP 21 2005

PUBLIC SERVICE
COMMISSION



MODIFICATIONS OF ATMOS ENERGY
CORPORATION'S GAS COST ADJUSTMENT
TO INCORPORATE PERFORMANCE-BASED
RATEMAKING MECHANISM (PBR)

CASE NO. 2005-00321

SEPTEMBER 7, 2005

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

MODIFICATIONS OF ATMOS ENERGY)
CORPORATION'S GAS COST ADJUSTMENT)
TO INCORPORATE PERFORMANCE-BASED) CASE NO. 2005-00321
RATEMAKING MECHANISM (PBR))

FIRST DATA REQUEST OF COMMISSION STAFF TO
ATMOS ENERGY CORPORATION

Atmos Energy Corporation ("Atmos"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due no later than September 22, 2005. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to page 2 of Atmos's petition and Exhibit B, the proposed tariff. Atmos has requested that the Commission extend the current Performance-Based Ratemaking mechanism ("PBR") for two months.

a. The proposed tariff in Exhibit B, which has an effective date of April 1, 2006, appears to incorporate the changes proposed in the application. Clarify whether Atmos intends that the proposed modifications to the PBR be effective April 1, 2006, or whether the request to extend the current PBR to June 1, 2006 applies to the PBR mechanism as it currently exists.

b. Atmos requested that the current PBR be extended to June 1, 2006 in order to coincide with the expiration of its current asset management agreement. Describe how far along in the process Atmos is in developing a request for proposals ("RFP") for a new asset management agreement.

c. Atmos's existing asset management agreement has a term which expires June 1, 2006. Assuming it pursues a new asset management agreement, when does Atmos expect to seek Commission approval of such an agreement?

d. Explain whether it is Atmos's intent to issue an RFP for a new asset management agreement while this case is pending or if it intends to wait and issue such an RFP after this case has been decided.

2. Refer to page 10 of Atmos's report on its PBR for the period April 2002 – March 2005 ("PBR report"). Atmos proposes to incorporate a new component, the Gas Acquisition Index Factor for Asset Management ("GAIFAM").

a. Provide an example of a supplier discount that the GAIFAM would include.

b. Explain how this type of discount is currently incorporated into Atmos's rates.

3. Refer to page 11 of the PBR report where Atmos proposes to decrease the Percentage of Total Actual Gas Supply Costs ("PTAGSC") threshold from 2 percent to 1 percent.

a. Explain in detail why the level of NYMEX settle prices for natural gas should impact the threshold percentage.

b. Provide the NYMEX settle prices for "the most recent twelve months" and for calendar year 2002, both of which are referenced in Atmos's discussion for why the PTAGSC threshold should be lowered.

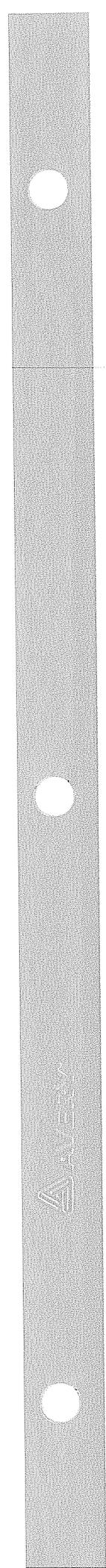
4. Did Atmos consider requesting that the PBR be made permanent as part of its filing? Explain the response in detail.



Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED September 7, 2005

cc: All Parties



WEBER

**ATMOS ENERGY CORPORATION
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005**

**FIRST DATA REQUEST OF COMMISSION STAFF
DATA REQUEST NO. 1 a**

QUESTION: Refer to page 2 of Atmos' petition and Exhibit B, the proposed tariff. Atmos has requested that the Commission extend the current Performance-Based Ratemaking mechanism ("PBR") for two months.

- a. The proposed tariff in Exhibit B, which has an effective date of April 1, 2006, appears to incorporate the changes proposed in the application. Clarify whether Atmos intends that the proposed modifications to the PBR be effective April 1, 2006, or whether the request to extend the current PBR to June 1, 2006 applies to the PBR mechanism as it currently exists.

RESPONSE:

- a. The Company dated the proposed tariff sheets April 1, 2006 since the current tariff expires on March 31, 2006. Also, in the event the Commission did not approve the requested extension of the current tariff, the Company wanted to implement the new program at the earliest opportunity. The Company would prefer to extend the current PBR mechanism an additional two months to align the PBR tariff with the expiration of the Company's current Natural Gas Sales, Transportation and Storage Agreement. If the two month extension is granted, the Company would file the revised tariff reflecting that the existing rider would expire on May 31, 2006. The dates on the proposed tariff, the final terms of which will be set in this Case, would be revised to reflect a June 1, 2006 effective date.

SUBMITTED BY: Gary Smith

**ATMOS ENERGY CORPORATION
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005**

**FIRST DATA REQUEST OF COMMISSION STAFF
DATA REQUEST NO. 1 b**

QUESTION: Refer to page 2 of Atmos' petition and Exhibit B, the proposed tariff. Atmos has requested that the Commission extend the current Performance-Based Ratemaking mechanism ("PBR") for two months.

- b. Atmos requested that the current PBR be extended to June 1, 2006 in order to coincide with the expiration of its current asset management agreement. Describe how far along in the process Atmos is in developing a request for proposals ("RFP") for a new asset management agreement.

RESPONSE:

- b. The Company, as stated in its final report on the existing PBR mechanism, has significantly refined its RFP processes, consistent with the Commission's Order in Case No. 2002-00245 and guidance in the recent gas procurement audit conducted by Liberty Consulting. For example, more detailed information on system throughput, daily operation of on-system storage facilities, and operation of pipeline storage facilities will be included in the upcoming RFP for gas supply and supply management services. Also, all supplemental information requested by any bidder will be provided to all prospective bidders.

The Company is in the early stages of developing the RFP for the supply agreement proposed to begin June 1, 2006. The Company intends to finalize the preparation of the RFP upon receipt of the final Order in this Case, to incorporate specific terms and conditions set for the future PBR tariff.

SUBMITTED BY: Gary Smith

**ATMOS ENERGY CORPORATION
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005**

**FIRST DATA REQUEST OF COMMISSION STAFF
DATA REQUEST NO. 1 c**

QUESTION: Refer to page 2 of Atmos' petition and Exhibit B, the proposed tariff. Atmos has requested that the Commission extend the current Performance-Based Ratemaking mechanism ("PBR") for two months.

- c. Atmos' existing asset management agreement has a term which expires June 1, 2006. Assuming it pursues a new asset management agreement, when does Atmos expect to seek Commission approval of such an agreement?

RESPONSE:

- c. Once a winning bidder has been selected, the Company would file any and all necessary documentation with the commission to seek any required review or approval of the new agreement.

Depending on the timing of the Order in this case, the Company hopes to issue the RFP by December 1, 2005. In this preliminary schedule, the selection of the successful bidder would take place by February 1, 2006 and the company would hope to have any required review and approval of the new agreement completed prior to the June 1, 2006 initiation of the supply agreement. Even if the preliminary schedule slips, and the successful bidder is not selected by March 1, 2006, three months would be available for any required review by the Commission.

SUBMITTED BY: Gary Smith

**ATMOS ENERGY CORPORATION
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005**

**FIRST DATA REQUEST OF COMMISSION STAFF
DATA REQUEST NO. 1 d**

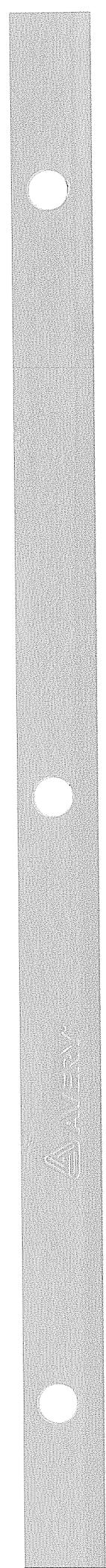
QUESTION: Refer to page 2 of Atmos' petition and Exhibit B, the proposed tariff. Atmos has requested that the Commission extend the current Performance-Based Ratemaking mechanism ("PBR") for two months.

- d. Explain whether it is Atmos' intent to issue an RFP for a new asset management agreement while this case is pending or if it intends to wait and issue such an RFP after this case has been decided.

RESPONSE:

- d. The Company intends to finalize the preparation of the RFP upon receipt of the final Order in this Case, to incorporate specific terms and conditions set for the future PBR tariff. For additional information, please refer to DR 1(b) and DR 1(c) of this Staff Data Request.

SUBMITTED BY: Gary Smith



**ATMOS ENERGY CORPORATION
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005**

**FIRST DATA REQUEST OF COMMISSION STAFF
DATA REQUEST NO. 2 a**

QUESTION: Refer to page 10 of Atmos' report on its PBR for the period of April 2002 – March 2005 ("PBR Report"). Atmos proposes to incorporate a new component, the Gas Acquisition Index Factor for Asset Management ("GAIFAM").

- a. Provide an example of a supplier discount that the GAIFAM would include.

RESPONSE:

- a. The Company proposed the GAIFAM in order to provide greater flexibility in the structure of bids by prospective suppliers. An example would be a fixed annual discount amount instead of, or in combination with, an index-based volumetric discount.

SUBMITTED BY: Gary Smith

**ATMOS ENERGY CORPORATION
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2005-00321
DATED: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005**

**FIRST DATA REQUEST OF COMMISSION STAFF
DATA REQUEST NO. 2 b**

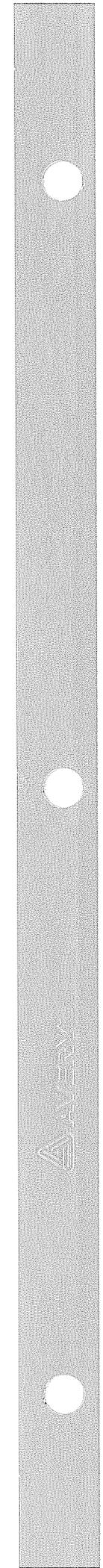
QUESTION: Refer to page 10 of Atmos' report on its PBR for the period of April 2002 – March 2005 ("PBR Report"). Atmos proposes to incorporate a new component, the Gas Acquisition Index Factor for Asset Management ("GAIFAM").

- b. Explain how this type of discount is currently incorporated into Atmos' rates.

RESPONSE:

- b. Currently, the tariff rider does not specifically address a fixed discount structure (not tied to volumetric measures) into the savings calculations. The Company proposes this new factor to accommodate, and offer, the option to prospective suppliers to express their supply discount in alternative terms. In other words, a prospective supplier could propose to provide asset management services at a fixed annual discount amount, not tied to volumetric requirements and provide the volumetric supply with no discount to the established benchmarks. Incorporating a fixed discount component of the bid would not be a requirement for prospective suppliers.

SUBMITTED BY: Gary Smith



**ATMOS ENERGY CORPORATION
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2005-00321
DATE: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005**

DATA REQUEST NO. 3 a

QUESTION: Refer to page 11 of the PBR report where Atmos proposes to decrease the Percentage of Total Actual Gas Supply Costs ("PTAGSC") threshold from 2 percent to 1 percent.

- a. Explain in detail why the level of NYMEX settle prices for natural gas should impact the threshold percentage.

RESPONSE:

- a. Market natural gas prices have risen sharply since 2002, when Case No. 2001-00317 first established the 2% threshold. The Company references the NYMEX settlement prices as an indicator of the magnitude of the increase. As referenced in the response to DR Item 3(b) of this Data Request, the supply component has more than doubled from 2002 to the most recent 12-month period. Other gas cost indices, including those included in the composite benchmark in the PBR, would reflect a similar magnitude of increase over the past three years. NYMEX prices for forward periods are remarkably higher than the settlement prices for the past twelve months.

The vast majority of the Company's total gas supply cost is the cost of the commodity purchases. The PBR was designed to reward the Company for maximizing gas cost savings through innovative purchasing structures. In essence, the hurdle to clear, before the Company begins to share 50% of the savings realized, has become twice as high as was originally set. The Company, in this proposal, merely seeks to reset the hurdle to approximate the level of 2002, in recognition of the unavoidable higher market costs today.

SUBMITTED BY: Gary Smith

**ATMOS ENERGY CORPORATION
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2005-00321
DATE: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005**

DATA REQUEST NO. 3 b

- QUESTION:** Refer to page 11 of the PBR report where Atmos proposes to decrease the Percentage of Total Actual Gas Supply Costs ("PTAGSC") threshold from 2 percent to 1 percent.
- b. Provide the NYMEX settle prices for "the most recent twelve months" and for calendar year 2002, both of which are referenced in Atmos' discussion for why the PTAGSC threshold should be lowered.

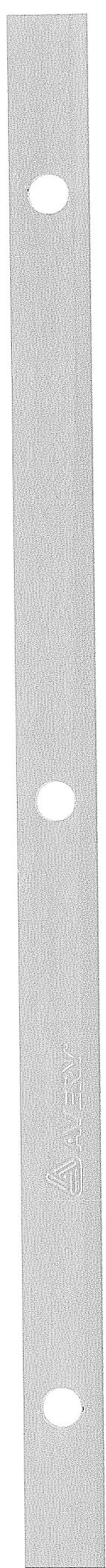
- RESPONSE:**
- b. Please refer to the attached Exhibit KPSC DR-1, Item 3(b).

SUBMITTED BY: Gary Smith

Case No. 2005-00321
 First KPSC Staff Data Request
 Due Sept. 22, 2005
 Exhibit PSC DR-1, Item 3(b)

Atmos Energy Corporation
 KY PBR
 NYMEX Closing Price Comparison

| Line Number | (a) <u>Calendar Year 2002</u> | (b) | (c) <u>Most Recent 12 Months</u> | (d) | (e) <u>\$ Increase</u> | (f) <u>% Increase</u> |
|-------------|----------------------------------|--------|-------------------------------------|--------|---------------------------|--------------------------|
| 1 | Jan-02 \$ | 2.5550 | Jan-05 \$ | 6.2130 | \$ 3.6580 | 143% |
| 2 | Feb-02 \$ | 2.0060 | Feb-05 \$ | 6.2880 | \$ 4.2820 | 213% |
| 3 | Mar-02 \$ | 2.3880 | Mar-05 \$ | 6.3040 | \$ 3.9160 | 164% |
| 4 | Apr-02 \$ | 3.4720 | Apr-05 \$ | 7.3230 | \$ 3.8510 | 111% |
| 5 | May-02 \$ | 3.3190 | May-05 \$ | 6.7480 | \$ 3.4290 | 103% |
| 6 | Jun-02 \$ | 3.4200 | Jun-05 \$ | 6.1230 | \$ 2.7030 | 79% |
| 7 | Jul-02 \$ | 3.2780 | Jul-05 \$ | 6.9760 | \$ 3.6980 | 113% |
| 8 | Aug-02 \$ | 2.9760 | Aug-04 \$ | 6.0480 | \$ 3.0720 | 103% |
| 9 | Sep-02 \$ | 3.2880 | Sep-04 \$ | 5.0820 | \$ 1.7940 | 55% |
| 10 | Oct-02 \$ | 3.6860 | Oct-04 \$ | 5.7230 | \$ 2.0370 | 55% |
| 11 | Nov-02 \$ | 4.1260 | Nov-04 \$ | 7.6260 | \$ 3.5000 | 85% |
| 12 | Dec-02 \$ | 4.1400 | Dec-04 \$ | 7.9760 | \$ 3.8360 | 93% |
| 13 | Average \$ | 3.2212 | Average \$ | 6.5358 | \$ 3.3147 | 103% |



**ATMOS ENERGY CORPORATION
KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2005-00321
DATE: SEPTEMBER 7, 2005
DUE: SEPTEMBER 22, 2005**

DATA REQUEST NO. 4

QUESTION: Did Atmos consider requesting that the PBR be made permanent as part of its filing? Explain the response in detail.

RESPONSE:

The Company did not consider requesting that the PBR be made permanent as part of this filing, but is open to that possibility. The Company implemented the original PBR tariff rider in 1998 (as a result of Case No. 1997-00513), modified that tariff in 2002 (Case No. 2001-00317), and is proposing to modify and extend the tariff rider in this Case. In each case, a Natural Gas Sales, Transportation and Storage Agreement has been entered into in conjunction with the tariff mechanism. Given this history, the Company proposed to extend the program for an additional five years. The envisioned RFP process will permit suppliers to bid with varying terms of up to five years. The Company believes it is important for the terms of the PBR mechanism and the terms of the supplier agreement be synchronized to the extent practical.

If the PBR is a permanent tariff, future tariff adjustments to be proposed, if any, could be requested prior to initiating future RFP's for new supplier agreements.

SUBMITTED BY: Gary Smith