

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

REQUEST OF ATMOS ENERGY)
CORPORATION FOR MODIFICATION AND)
EXTENSION OF ITS GAS COST) CASE NO. 2010-00353
ADJUSTMENT PERFORMANCE-BASED)
RATE-MAKING MECHANISM)

O R D E R

On August 31, 2010, Atmos Energy Corporation (“Atmos”) submitted an application requesting that (1) the Commission accept its report detailing the results of its Performance Based Ratemaking (“PBR”) mechanism; (2) the Commission enter an Order approving modifications to its PBR mechanism and extending its mechanism for five years; and (3) the Commission approve its proposed tariff setting out the modified PBR mechanism effective November 1, 2010. On October 29, 2010, the Commission issued an Order suspending the proposed tariff for five months pending the completion of its review.

The Commission approved the current PBR mechanism in February 2006 for five years expiring May 31, 2011.¹ The program benchmarks the following components of Atmos’s gas costs: (1) commodity costs; (2) transportation costs; (3) capacity release revenues; and (4) off-system sales revenues. Actual costs and revenues are compared

¹ Case No. 2005-00321, Modification of Atmos Energy Corporation’s Gas Cost Adjustment to Incorporate Performance Based Ratemaking Mechanism (PBR) (Ky. PSC Feb. 8, 2006).

against benchmarks to determine how Atmos performed in its gas procurement activities.

Variances between the actual costs/revenues and the benchmarks are shared between shareholders and ratepayers on a sliding scale consisting of two bands. The first band covers variances from the benchmark ranging from 0 to 2.0 percent and is shared 70:30 between ratepayers and shareholders in favor of the ratepayers. The second band covers variances greater than 2.0 percent and is shared 50:50 between rate payers and shareholders. Since the inception of its PBR in 1998 through May 2010, Atmos reports total savings of approximately \$41.5 million with the majority of this amount going to its customers.

Atmos responded to one round of data requests from Commission Staff. There are no intervenors in this proceeding.

ISSUES

Atmos proposes to modify the current PBR mechanism by eliminating two of the four indices that are included in its benchmark calculation for the Supply Area Index factor for Base Load ("SAIBL") and the Delivery Area Index factor for Base Load ("DAIBL"). Atmos states that neither the Natural Gas Week nor the Gas Daily indices, which are currently included in the average to establish the SAIBL and the DAIBL, pertain directly to first-of-month or baseload purchases. According to Atmos, when potential vendors responding to its requests for proposal bid an index for first-of-month or baseload purchases, the index cited is either Inside FERC or NYMEX, which are the remaining two indices included in the benchmark calculations.

Atmos proposes to extend the term for its modified experimental PBR an additional five years, through May 31, 2016. Atmos states that continuing to extend the PBR for a period of this length will help ensure meaningful benefits for customers, and that a longer experimental period without the uncertainty of expiration may enable it to achieve greater savings.

Atmos also proposes to file an evaluation report on the results of the first four years of the PBR extension within 90 days of the end of the fourth year. At that time, it will propose any modifications to the PBR mechanism for the Commission's review.

The Commission believes that Atmos's request to eliminate the Natural Gas Week and Gas Daily indices is reasonable, given that the remaining two indices are more relevant for the computation of first-of-month and baseload purchases benchmarks. The Commission further concludes that it is reasonable to continue the PBR for five years, at which time the mechanism should again be reviewed. With its PBR again extended for a fairly lengthy period of time, the Commission will continue to monitor the PBR mechanism by means of the annual reports required by Sheet 37 of Atmos's tariff.

SUMMARY

The Commission, based on the evidence of record and being otherwise sufficiently advised, finds that:

1. The benchmark calculations for the SAIBL and DAIBL should be modified to eliminate Natural Gas Week and Gas Daily as proposed by Atmos.
2. Atmos's proposed PBR tariff sheets 28 and 29 should be approved. Atmos's proposed PBR tariff sheet 30 should be approved with the additional

modification acknowledged by Atmos in its Response to Item 4 of the Commission Staff's Initial Data Request.

3. The PBR mechanism should be approved, subject to the modifications approved herein, and extended for an additional five years through May 31, 2016.

4. Atmos's report on the results of its current PBR should be accepted.

5. Within 90 days of the end of the fourth year of the five-year extension, Atmos should file an evaluation report on the results of the PBR for the first four years of the extension period for the Commission's review for purposes of determining whether the PBR should be continued, modified, or terminated.

IT IS THEREFORE ORDERED that:

1. Atmos's SAIBL and DAIBL index factors shall no longer include Natural Gas Week or Gas Daily.

2. Atmos's proposed PBR tariff sheets 28 through 30 are approved as modified herein.

3. Atmos's PBR mechanism shall be extended, as modified herein, for an additional five years through May 31, 2016.

4. Atmos's report on the results of the current PBR mechanism is accepted.

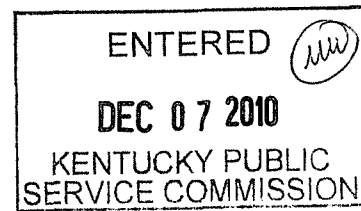
5. Atmos shall file annual reports of its activity under the extended PBR including the same information as contained in the report filed in this proceeding. These reports shall be filed by August 31 of each calendar year commencing in 2011.

6. Within 90 days of the end of the fourth year of the five-year extension, Atmos shall file an evaluation report on the results of the PBR for the first four years of

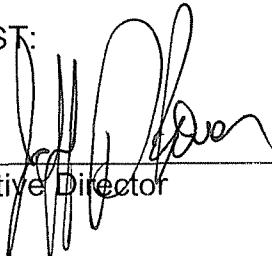
the extension period, and the Commission shall review same to determine whether the PBR should be continued, modified, or terminated.

7. Atmos shall, within 20 days of the date of this Order, file its revised tariff sheets with the Commission setting out the revisions to its PBR tariff approved herein and reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:



Executive Director

Mark R Hutchinson
Wilson, Hutchinson & Poteat
611 Frederica Street
Owensboro, KY 42301