COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY CORPORATION FOR CONTINUATION OF ITS HEDGING PROGRAM	)))	CASE NO. 2012-00440

ORDER

On September 28, 2012, Atmos Energy Corporation ("Atmos") filed its request for approval to continue its current hedging program. Atmos has had a Commission approved hedging program in place since June 2001; the most recent version was approved in Case No. 2007-00551[1] for five years through March 31, 2013, with options being approved as an additional hedging tool through that same date in Case No. 2012-00110.[2]

Atmos proposes to continue its hedging activities for five years through March 31, 2018, continuing to use futures contracts and no-cost collars as well as options, depending on market conditions. Atmos proposes no modifications to its currently approved five-year hedging program, other than approval to use options as a hedging tool for the full term of its proposed five-year extension.

Atmos's hedging program is described in its interim (filed within 30 days of the November 1 start of the heating season) and final (filed within 30 days of the end of the

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[1] Case No. 2007-00551, Application of Atmos Energy for Modification of Its Approved Hedging Program (Ky. PSC Apr. 8, 2008).

[2] Case No. 2012-00110, Application of Atmos Energy Corporation for Clarification or Alternatively for Modification of Its Approved Hedging Program (Ky. PSC Apr. 24, 2012).

heating season on March 31) hedging reports, the most recent final report having been filed on April 30, 2012, and the most recent interim report filed November 30, 2012. According to the April 30, 2012 report, Atmos supplies approximately 68 percent of its winter gas requirements from company-owned storage, with the remaining required winter volumes divided between purchases at market prices and financial hedges. During the months April through October (the hedging implementation period),[3] Atmos hedges up to two winter heating seasons, which consist of the months November through March. During the implementation period of April through October 2012, Atmos planned to hedge between 25 and 50 percent of normalized expected purchases net of storage for the 2012-2013 heating season, and between 0 and 25 percent of normalized expected purchases net of storage for the 2013-2014 heating season.

Atmos proposes to continue to file interim and final reports on its hedging activities as required by the Commission in its approval of Atmos's previous hedging programs.

Atmos responded to one Commission Staff Request for Information. There are no intervenors in this proceeding. The record is now complete and the matter stands submitted for decision.

Atmos's hedging program is not designed to produce the lowest purchase cost, but to help stabilize gas costs for customers. This has been the Commission's primary stated objective, both in Administrative Case No. 384[4] and in past hedging plan cases

[3] The implementation period is the months over which Atmos can purchase hedging instruments.

[4] Administrative Case No. 384, An Investigation of Increasing Wholesale Natural Gas Prices and the Impacts of Such Increases on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Distribution Companies (Ky. PSC Jan. 30, 2001).

involving Atmos and other Kentucky local distribution companies. Atmos's substantial company-owned gas storage along with its hedging program can provide for a majority of its winter gas needs at costs that are not subject to the market pressures that often exist during the winter heating season. In support of its request for Commission approval to extend its hedging program for an additional five years, Atmos states that there is no guarantee that currently low natural gas prices will continue, and provides a discussion of potential changes to the supply and demand for natural gas that could impact gas prices in the future. Because of this, according to Atmos, it believes in a portfolio approach to gas purchases, with continued hedging ensuring that its future winter gas portfolio reflects current relatively low prices.

With regard to its request to continue to use options as a hedging tool, Atmos states that purchasing call options provides protection against gas price increases while allowing downside participation if prices decrease. Atmos describes call option premiums as being similar to an insurance policy premium which is paid to insure against a catastrophic event, with call option premiums currently inexpensive relative to the historical incremental cost of hedging with natural gas swaps using futures contracts. Atmos proposes to continue to monitor the market in order to utilize the most effective mix of financial hedging instruments.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that Atmos's hedging program, including the use of call options, should continue. However, given that natural gas prices continue to be relatively low and stable, albeit without any guarantees that they will remain so, we find that Atmos's hedging program should be approved only through March 31, 2014, with the continued ability to hedge for an additional two heating seasons, up to and including March 2015. This will allow the Commission to review the most current projections for gas price volatility as well as Atmos's next annual hedging report, which we find it should continue to file, to determine whether there is projected volatility in natural gas prices that support Atmos's contention that the need for hedging still exists. Atmos should file its application requesting Commission approval of further extension of its plan at the time it files its next interim hedging report, but in any event, no later than November 30, 2013.

Because of the Commission's concern that low and stable gas prices may obviate the need for financial hedging, a development that is causing the regulatory community to revisit the hedging of gas cost,[5] in addition to the information already required in its interim and final reports to the Commission, Atmos should provide the following information:

1. Total gas cost, by month, for each month of the 12-month period ending October 31 for the interim and for the 12-month period ending March 31 for the final report. Atmos's interim report, to be filed no later than November 30, 2013, should include this information for the five years ending November 30, 2013.

2. Total cost paid and associated volumes for gas physically hedged through use of Atmos's company-owned storage, by month, for each month of the 12-month period ending October 31 for the interim and for the 12-month period ending March 31 for the final report. Atmos's interim report, to be filed no later than November 30, 2013, should include this information for the five years ending November 30, 2013.

[5] Natural Gas Hedging: Should Utilities and Regulators Change Their Approach? National Regulatory Research Institute, May 2011.

3. Total gas cost and associated volumes for gas financially hedged, for each month of the 12-month period ending October 31 for the interim and for the 12-month period ending March 31 for the final report. Atmos's interim report, to be filed no later than November 30, 2013, should include this information for the five years ending November 30, 2013.

4. The percentage decrease (or increase) in volatility in Atmos's gas cost due to the use of:

a. Futures contracts;

b. Call options; and

c. No-cost collars, if applicable.

IT IS THEREFORE ORDERED that:

1. Atmos's request to extend its current hedging program, with the addition of options as a hedging tool, is approved through March 31, 2014.

2. Atmos shall file interim and final reports as required by the Commission in its approvals of Atmos's previous hedging programs, including the additional information described above.

3. If it desires to continue its hedging program beyond March 31, 2014, it shall request further extension at the time it files its next interim hedging report, or no later than November 30, 2013.

By the Commission

ENTERED

MAR 28 2013

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

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