

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY	)	
CORPORATION FOR APPROVAL OF THIRD	)	
PARTY NATURAL GAS SUPPLY AND ASSET	)	CASE NO.
MANAGEMENT AGREEMENT AND FOR A	)	2013-00434
DEVIATION FROM THE PRICING	)	
REQUIREMENTS OF KRS 278.2207	)	

ORDER

On December 10, 2013, Atmos Energy Corporation Kentucky (“Atmos”) applied for approval of a natural gas supply agreement (“New Supply Agreement”) with Atmos Energy Marketing, LLC (“AEM”) and for a deviation from the affiliate-pricing requirements set forth in KRS 278.2207(1)(b). By this order, we approve the proposed New Supply Agreement and grant the requested deviation.<sup>1</sup>

In Case No. 2011-00201,<sup>2</sup> Atmos requested that the Commission approve contracts separately for the individual portions of the Atmos system served by Texas Gas/Trunkline (“TXG”) and Tennessee Gas Pipeline (“TGP”). The Commission’s Final Order in that case approved Atmos’s supply agreements with AEM for both the TXG and TGP portions of the Atmos system and also granted a deviation from the

---

<sup>1</sup> No person has sought intervention in this proceeding. In addition to the application, the record contains Atmos’s response to Commission Staff’s requests for information. No hearing was requested in this matter.

<sup>2</sup> Case No. 2011-00201, *Application of Atmos Energy Corporation, for Approval of Third Party Gas Supply Agreements and for Deviation from the Pricing Requirements of KRS 278.2207* (Ky. PSC Oct. 13, 2011).

requirements of KRS 278.2207(1)(b). The TXG supply agreement as approved by the Commission was for a term of four years and ten months and has not yet expired. Due to potential changes to terms of TGP's transportation, Atmos requested and was authorized to award a ten-month contract to AEM for TGP asset management and to issue a subsequent Request for Proposal ("RFP") once TGP rate case issues at the Federal Energy Regulatory Commission were resolved. Upon expiration of Atmos's ten-month supply agreement with AEM for the TGP portion of its system, Atmos entered into its current supply agreement with non-affiliate Twin Eagle Resource Management, LLC, which did not require Commission approval. This agreement will expire on March 31, 2014.<sup>3</sup>

According to its application, on September 17, 2013, Atmos issued, through e-mails to potentially interested parties who were registered on Atmos's website, an RFP for its firm supply requirements and for asset management of the transportation and storage contracts on the TGP portion of its system. The RFP was viewed by 39 potential suppliers, four of whom submitted proposals. Atmos states that, based upon a comparative cost analysis of the proposals, it determined that AEM's proposal is in the best interest of Atmos and its ratepayers and will produce greater savings than would the competing bids. The term of the proposed contract is for the 12-month period beginning April 1, 2014.

AEM is a wholly owned subsidiary of Atmos Energy Holdings, LLC, which is wholly owned by Atmos Energy Corporation. As a result of this relationship, any

---

<sup>3</sup> Application at 1.

transaction between Atmos and AEM must comply with the pricing requirements of KRS 278.2207 unless the Commission grants a deviation. KRS 278.2207, in pertinent part, provides:

- (1) The terms for transactions between a utility and its affiliates shall be in accordance with the following:
  - (a) . . . .
  - (b) Services and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market or in compliance with the utility's existing USDA, SEC or FERC approved cost allocation methodology.
- (2) A utility may file an application with the commission requesting a deviation from the requirements of this section for a particular transaction or class of transactions. The utility shall have the burden of demonstrating that the requested pricing is reasonable. The commission may grant the deviation if it determines the deviation is in the public interest.

Atmos has requested a deviation for the New Supply Agreement from the pricing requirements of KRS 278.2207(1)(b). In support of its request, Atmos states that since the TGP New Supply Agreement is the result of a competitive bidding process, the price cannot be at AEM's fully distributed cost. Atmos also asserts that the competitive bidding process establishes that the cost of the services and products is not greater than the market cost.

In its Order in Case No. 2002-00245<sup>4</sup> approving Atmos's gas supply agreement with AEM, the Commission noted the recommendations of Liberty Consulting Group ("Liberty") regarding Atmos's RFP process in a management audit Liberty conducted in 2002. Liberty recommended several modifications to Atmos's RFP process to ensure

---

<sup>4</sup> Case No. 2002-00245, *Application of Western Kentucky Gas Company, a Division of Atmos Energy Corporation, for Approval of Third Party Gas Supply Agreement and for a Deviation of the Pricing Requirements of KRS 278.2207* (Ky. PSC Dec. 3, 2002).

that all bidders would receive the same information. Specifically, information supplied in response to a bidder's question regarding an RFP should be submitted to all bidders. In response to a Staff request, Atmos provided the steps it takes to ensure that its affiliate receives no preferential treatment in its RFP processes.<sup>5</sup>

Atmos has been granted confidential treatment of its proposed gas supply agreement, the specific information contained in the bids submitted in response to its RFP, and its analysis of those bids. Atmos's cost support analysis of the four submitted proposals has been reviewed by the Commission which confirmed that AEM's proposal is the least-cost option.

The Commission, having reviewed the information and analysis provided and being otherwise sufficiently advised, finds that:

1. The proposed transaction with AEM will provide the greatest savings as compared with the other bids, is reasonable, and is in the public interest.
2. The requested price is reasonable.
3. Atmos's request for deviation from the requirements of KRS 278.2707 is in the public interest and should be granted.

IT IS THEREFORE ORDERED that:

1. Atmos's proposed gas supply agreement with AEM is approved.
2. Atmos's request for a deviation from the pricing requirements of KRS 278.2207 is granted.

---

<sup>5</sup> Item 3 of Atmos's Response to Commission Staff's Request for Information (Ky. PSC Jan. 28, 2014).

By the Commission

ENTERED  
MAR 20 2014  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2013-00434

Honorable John N Hughes  
Attorney at Law  
124 West Todd Street  
Frankfort, KENTUCKY 40601

Honorable Mark R Hutchinson  
Attorney at Law  
611 Frederica Street  
Owensboro, KENTUCKY 42301

Douglas Walther  
5430 LBJ Freeway  
1800 Three Lincoln Centre  
Dallas, TEXAS 75240