COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE FINAL REPORT OF ATMOS ENERGY CORPORATION ON ITS HEDGING PROGRAM FOR THE 2006-2007 HEATING SEASON AND MOTION TO CONDUCT A HEDGING PROGRAM FOR THE 2007-2008 HEATING SEASON	) CASE NO. 2007-00171

O R D E R

On April 30, 2007, Atmos Energy Corporation ("Atmos") filed the final report on its natural gas hedging activities for the 2006-2007 heating season. Within this filing Atmos also requested Commission approval to continue its hedging program for the 2007-2008 heating season, which will cover the period from November 2007 through March 2008. Atmos has had a Commission approved hedging program in place since June 2001. The most recent version was approved on June 16, 2006 for the 2006-2007 heating season.

Within the April 30, 2007 filing, Atmos requested confidential treatment of the filed report, pursuant to 807 KAR 5:001 Section 7, and all other applicable law. Atmos states that attachments to the filed report contain hedging strategies of sensitive, proprietary nature which could put Atmos at a commercial disadvantage in future hedging negotiations, should this information be publicly disclosed. Atmos contends that there is no significant interest in public disclosure of the information that outweighs the competitive interest in keeping the information confidential. Finally, Atmos argues that the information is entitled to confidential treatment because it constitutes trade secrets under the two prong test of KRS 265.880: (a) the economic value of the information is derived by not being readily ascertainable by other persons who might obtain economic value by its disclosure and (b) the information is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Atmos proposes to continue its hedging activities for the upcoming 2007-2008 heating season. The proposed hedging plan consists of futures and no-cost collars, which would be the same hedging instruments used by Atmos for most of its hedged transactions during the six previous heating seasons.

Atmos plans to supply approximately 66 percent of its winter gas requirements from company-owned storage and pipeline storage. The remaining required winter volumes would be divided between market purchases and financial hedges with no minimum, or floor, for its hedged purchase volumes. Any financial hedging transactions would be executed between the time of Commission approval of the plan and October 31, 2007. Atmos would continue to file interim (within 30 days of the start of the heating season on November 1, 2007) and final reports (within 30 days of the end of the heating season on March 31, 2008) on its hedging activities as had been required by the Commission in its approvals of Atmos's previous hedging programs.

Atmos acknowledges that an alternative plan for the winter period of 2008-2009 under which futures contracts would be layered in over a longer period of time might be forthcoming. Atmos explains that layering futures over a longer period of time would offer flexibility to react to market conditions. Atmos contends that layering in futures over a longer implementation period reduces exposure to short term market fluctuations and provides more opportunity to take advantage of favorable conditions. Therefore, Atmos might file its hedging proposal for the winter period of 2008-2009 within the next few months under a separate docket.

DISCUSSION OF 2006-2007 HEDGING PROGRAM

Low cash pricing in autumn 2006 contrasted sharply with autumn 2005, when producers were working to bring back Gulf of Mexico volumes from the impacts of Hurricanes Rita and Katrina. Due to unseasonably warm temperatures from January through March 2006 producers were left with nationwide storage balances of over 1.7Tcf at the beginning of the 2006 implementation period. This storage overhang was only partially depleted by a short period of summer cooling demand during the April through October 2006 hedging implementation period.

Notwithstanding the storage surplus, winter 2006-2007 futures were not proportionally affected. Due to anticipation of a hurricane season that was projected to be active, winter seasonal prices remained relatively high. The customary $0.50 to $1.00 summer-winter spread was eclipsed by a gap of over $4.00. By the end of September it became apparent that the hurricane season would not be as active as had been originally expected. Winter season prices all fell dramatically. This market correction narrowed the summer-winter spread to a more likely $1.35 by the end of the winter season on March 31, 2007.

While the approved Plan strategy allowed for financial hedges of up to 50 percent of expected purchases, the actual level of hedging for the 2006-2007 winter season was 39 percent of expected purchases and 12 percent of total expected requirements. The remainder of expected total requirements was covered by storage withdrawals and index priced purchases.

Atmos's hedging strategy continues to address the Commission's concerns regarding price stability for retail customers and incurs costs for the program that are acceptable given the level of benefits derived.

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

1. Atmos's report on its natural gas hedging activities for the 2006-2007 heating season should be accepted.

2. Atmos's request to continue its natural gas hedging plan through March 31, 2008 should be approved.

3. Atmos should file interim and final reports on its hedging activities as required by the Commission in its approvals of Atmos's previous hedging programs.

IT IS THEREFORE ORDERED that:

1. Atmos's report on its natural gas hedging activities for the 2006-2007 heating season is accepted.

2. Atmos's request for confidential treatment of the Attachment A of the April 30, 2007 filing is approved.

3. Atmos's continuation of its natural gas hedging plan through March 31, 2008 is approved.

4. Atmos shall file interim and final reports as required by the Commission in its approvals of Atmos's previous hedging programs.

Done at Frankfort, Kentucky, this 5th day of June, 2007.

By the Commission

ATTEST:

Executive Director