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April 28, 2005

Elizabeth O'Donnell, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

Case No. 2005-00175

Subject: **Final Hedging Report and Proposal to Conduct a Hedging Program
for the Winter of 2005-2006**

Dear Ms. O'Donnell:

Enclosed herein are one original and ten copies of Atmos Energy's final hedging report for financial hedges purchased for the winter of 2004-2005, as required by the Commission's Order in Case No. 2004-00142, dated July 20, 2004.

Please note that the Company has filed certain exhibits in the report under a petition for confidentiality.

Also, please note that the Company is proposing a hedging plan for the upcoming winter period of 2005-2006 in conjunction with the submittal of this report. The Company's proposed hedging plan for the upcoming winter is consistent with the plan approved by the Commission for the past two winter periods.

Please contact me at your earliest convenience (270-685-8024) should the Commission or Staff have any questions regarding the enclosed report.

Sincerely,

Gary L. Smith
Vice President, Marketing & Regulatory Affairs

Enclosures

Cc: Hon. Elizabeth E. Blackford
Hon. David Spenard

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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IN THE MATTER OF:

The Final Report of Atmos Energy Corporation on Its
Hedging Program for the 2004-2005 Heating Season
And Motion to Conduct a Hedging Program for the 2005-
2006 Heating Season


)
) Case No.
) 2005-00175
)

**MOTION TO ACCEPT FINAL REPORT OF HEDGING PROGRAM
AND TO CONDUCT HEDGING PROGRAM FOR THE
WINTER OF 2005-2006**

Comes now, Atmos Energy Corporation ("Atmos Energy") and pursuant to Commission's Order of July 20, 2004, in Case No. 2004-00142, files herewith its final hedging report identifying, inter alia, gas cost savings or costs realized under Atmos Energy's hedging program. In accordance with the final Order in that Case, dated December 17, 2004, this report shall be docketed as a new proceeding. Atmos Energy respectfully moves the Commission to accept the attached final hedging report for the winter of 2004-2005.

Atmos Energy's hedging program has proven successful in stabilizing gas costs. Atmos Energy believes it is in the best interest of its' ratepayers and shareholders for the hedging program to be continued. Atmos Energy accordingly moves the Commission for entry of an order extending its hedging program, as set forth in the attached report, in the section titled "Atmos Energy's Hedging Program Proposed for the Winter of 2005-2006".

Respectfully submitted this 28 day of April, 2005.



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CERTIFICATE OF SERVICE

I hereby certify that on the 28 day of April, 2005, the original Motion together with ten (10) copies, were filed with the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602, and a true copy thereof mailed by first class mail to the following named persons:

Hon. Elizabeth E. Blackford
Hon. David Spenard
Assistant Attorney Generals
Office of Rate Intervention
1024 Capitol Center Drive
Frankfort, Kentucky 40601



Mark R. Hutchinson

Case No. 2005-00175

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ATMOS ENERGY – Kentucky Division
FINAL HEDGING REPORT: WINTER 2004-2005
April 28, 2005

APR 29 2005

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COMMISSION

The Kentucky Public Service Commission (“Commission”) requested in its Order in Case No. 2004-00142, dated July 20, 2004, that Atmos Energy Corporation (“Atmos Energy”) provide the Commission with a final hedging report within 30 days of the March 31, 2005 end of the heating season. The report is to “identify any gas costs savings realized under the hedging program and provide the accounting entries made by Atmos Energy to record monthly changes in market prices and the closing of the contracts and net settlement”.

Atmos Energy’s (Kentucky Division) Hedging Program Savings

Natural gas prices began the winter 2004-2005 season with the November 2004 NYMEX contract settling at \$7.626, \$3.167 higher than the prior year (November 2003) settlement of \$4.459. The December 2004 NYMEX contract rose an additional \$0.35 to settle just under \$8.00 at \$7.976. Despite relatively mild winter weather and orderly storage withdrawals, the high early winter prices reflected strength in the overall energy complex and fears of a developing natural gas supply-demand imbalance. Fundamental factors reasserted themselves in the final three winter months but strong heating oil and crude prices prevented natural gas prices from significant declines. The NYMEX settlements for January and February were \$6.213 and \$6.288, respectively. The March 2005 NYMEX contract settled at \$6.304 as the end of the winter season approached.

Implementation of Atmos Energy’s 2004-2005 hedging program protected customers from absorbing the full impact of the early-winter peak of the natural gas market. The benefits achieved in November and December of 2005 were partially offset by additional costs experienced in January, February and March 2005. 1,050,000 MMBtu were hedged with futures at a weighted average price of \$6.494. Another 150,000 MMBtu were hedged with a weighted average “costless collar” ceiling of \$9.076. Less weighting was given costless collars because, during the implementation phase, call premium levels were priced to uneconomic levels relative to historic call premium levels. The total benefit of the financial hedges amounted to \$307,280 after subtracting all transaction costs (reference Exhibit A attached hereto). Atmos Energy believes the program was successful in stabilizing gas costs for its customers and believes programs put in place in the future continue to hold value for our customers. As stated in the Commission’s Order in Case No. 2003-00192, “achieving price stability, not (necessarily) the lowest possible cost, is the (primary) goal of a hedging program.”

Atmos Energy’s Hedging Program Contract Monthly Changes, Settlements, and Accounting Entries

Please review the attached Exhibit B for the accounting entries related to the program.

Atmos Energy's Hedging Program Proposed for the Winter of 2005-2006

By application accompanying this report, Atmos Energy is proposing a hedging plan for the upcoming winter of 2005-2006. The proposal for the upcoming winter will duplicate the hedging plan approved by the Commission for the past two winters under Case Nos. 2003-00192 and 2004-00142.

Atmos Energy's proposal for the 2005-06 season is to continue dividing its commodity gas purchases between company owned and pipeline storage, market purchases and financial hedges. Approximately 66% of the normal winter volumes will be stored during the injection season for use next winter. Of the remaining winter requirements, up to 50% of the gas purchases will be financially hedged (or 17% of the total winter requirements), with the balance of requirements purchased at market prices. Consistent with recent hedging programs, we believe this strategy will provide a measure of protection for consumers from significant upward price spikes. In recognition of Commission guidance in Case No. 2003-00192, the Company will enter its hedging arrangements in response to changes in market conditions, and will layer in positions over the course of the summer and fall. No minimum or "floor" percentage of hedge volumes is proposed.

Atmos Energy, for the fourth consecutive year, proposes to purchase futures contracts and possibly call/put options in the form of "costless collars", depending on the premium. Collars allow a utility to establish a range, between a ceiling price and a floor price, for the price of gas, rather than a single price, as with futures. A costless collar is the simultaneous purchase of call options and sale of put options at identical or nearly identical premiums. That is, the premiums paid to purchase call options are offset by the premiums earned in selling the corresponding put option. Hence, the option premiums net out to be "costless" (or as "costless" as possible).

Market forces, at present, have become extremely volatile. Atmos Energy's financial hedges for the upcoming winter will be executed during the period following approval of its plan and October 31, 2005. Any compression of the implementation period increases exposure to short term extraordinary market conditions. Generally, price stabilization improves with the length of the implementation period because transactions are spread over a wider range of market conditions. Therefore, timely approval of the hedging plan would be beneficial.

The Company proposes to file both an interim and final report on its hedging plan consistent with requirements of previous hedging programs. The interim report would be filed within 30 days of the November 1, 2005 start of the upcoming heating season and the final report filed within 30 days of the March 31, 2006 end of the heating season. Typically, Atmos Energy has submitted its plan for the following winter period simultaneously with its final report for the previous winter period. The Company may propose an alternative plan for the winter period of 2006-2007 under which futures contracts would be layered in over a longer period of time. Therefore, Atmos Energy

may file its hedging proposal for the winter period of 2006-2007 within the next few months, under a separate docket.

The Company remains convinced that a disciplined hedging strategy is essential to ensure affordable and manageable gas costs for Kentucky ratepayers in response to continued gas price volatility and market uncertainty.

ATMOS ENERGY - Kentucky Division
 FINAL HEDGING REPORT: WINTER 2004-2005
 April 27, 2005
 CONFIDENTIAL

Line Number	Column	a	b	c	d	e	f
		Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Total
	<u>Hedging Plan</u>						
1	Expected Requirements						
2	Expected Storage Withdrawals						
3	Expected Purchases						
4	% of Expected Purchases Hedged						
5	Financial and Fixed Hedges						
6	Storage % of Usage						
7	Financial & Fixed % of Usage (Maximum)						
8	Market Priced % of Usage						
9	<u>Implementation</u>						
	<u>Futures Contracts</u>						
10	Volumes Hedged						
11	Weighted Average Price						
12	Nominal Amount						
15	Nymex Settlement						
	<u>Collars</u>						
16	Volumes Hedged						
17	Avg Ceiling Price (Call)						
18	Avg Floor Price (Put)						
19	Nymex Settlement						
	<u>Total Futures and Collars</u>						
20	Total Volumes Hedged						
21	Percent Complete (% of Maximum)						
22	Average Price						
23	(Benefits) / Cost of Futures Contracts						
24	(Benefits) / Cost of Collars						
25	Transaction Costs						
26	Total (Benefits) / Cost of Hedges						

ATMOS ENERGY - Kentucky Division
FINAL HEDGING REPORT, WINTER 2004-2005
MONTHLY ACCOUNTING ENTRIES
 April 28, 2005
CONFIDENTIAL

Month	Category	BatchName	JE Name	Account	Sub Account	Description	Debits	Credits	Account Description	Sub Account Description
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NOTES:

1. Losses on Futures contracts are recorded as a Debit to #1910 and a Credit to #2420.
2. Gains on Futures contracts would be recorded as a Credit to #1910 and a Debit to #1740.
3. Gas costs booked on a one month lag; ie. Final costs for March contracts held in 1910.29000 until transferred to 1910.14088 to match up with the production month.