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COMMISSION

November 29, 2007

Ms. Elizabeth O'Donnell, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

Subject: KPSC Case No. 2007-00171
Interim Hedge Report

Dear Ms. O'Donnell:

Atmos Energy Corporation (Company) herewith submits an original non re-dacted and ten (10) re-dacted copies of the interim hedge report pursuant to the Commission's Order dated June 5, 2007 in the above referenced proceeding.

Please contact either myself at 270.685.8024 or Len Matheny at 270.685.8062 if the Commission or Staff has any questions regarding the enclosed report.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Martin".

Mark A. Martin
Vice President, Rates & Regulatory Affairs

Enclosures

cc: Randy Hutchinson
Doug Walther
Alan Chambers

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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE INTERIM REPORT OF ATMOS ENERGY CORPORATION
ON ITS HEDGING PROGRAM FOR THE 2007-2008
HEATING SEASON

Case No. 2007-00171

**MOTION TO ACCEPT INTERIM REPORT OF HEDGING PROGRAM
FOR THE 2007-2008 HEATING SEASON**

Comes now, Atmos Energy Corporation ("Atmos Energy") and pursuant to the Commission's Order of June 5, 2007, files herewith its Interim Report for the 2007-2008 Heating Season identifying, *inter alia*, gas costs realized under Atmos' hedging program. Atmos Energy respectfully moves the Commission to accept the attached Interim Hedging Report for the 2007-2008 Heating Season.

Respectfully submitted this 20 day of November, 2007.



Mark R. Hutchinson
611 Frederica Street
Owensboro, Kentucky 42301

Douglas Walther
ATMOS ENERGY CORPORATION
PO Box 650250
Dallas, Texas 75265

CERTIFICATE OF SERVICE

I hereby certify that on the 27 day of November, 2007 the original of this Motion, together with ten (10) copies, were filed with the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40206.



Mark R. Hutchinson

ATMOS ENERGY CORPORATION
KENTUCKY DIVISION
INTERIM HEDGING REPORT

CASE NO. 2007-00171

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The Kentucky Public Service Commission (“Commission”) requested in its Order in Case No. 2007-00171 that Atmos Energy Corporation (“Atmos Energy or the “Company”) provide the Commission with an interim hedging report within thirty days following November 1, 2007. The report is to follow the requirements outlined in Case No. 1997-00513 to provide “a brief narrative discussion of the factors that influenced Western’s (Now Atmos Energy Corporation’s) purchasing decisions, including, but not limited to:

- (1) futures prices at the time of purchasing decisions;
- (2) market price trends at the time of purchasing decisions;
- (3) market price forecasts at the time of purchasing decisions;
- (4) nationwide storage levels, and Western’s own on-system storage levels, at the time of purchasing decisions;
- (5) data summary of all hedging transactions; and
- (6) hedge transactions accounting entries

Atmos Energy’s Hedging Strategy

The Company’s management, based upon its experiences the past seven winters and upon direction from the Commission, developed the following set of parameters under which a hedging program would be initiated. These parameters were put into place before the first purchase was made. These parameters are:

- (a) Based on the Company’s supply plan for the winter of 2007-2008 requirements, the Company would purchase financial hedging instruments to stabilize gas prices within a range of 0% up to 11% of its expected total requirements.
- (b) Generally, purchases would be made during the period following the Commission’s June 5, 2007 Order in this Case and the month of October 2007. This would allow the Company to weight the price across the projected purchase period. Following the Commission’s guidance, the Company would use its judgment on market conditions and trends to adjust the timing and volumes of hedge instrument purchases. The Company would purchase futures contracts and possibly options on futures contracts to stabilize prices in a reasonable range, realizing that achieving the lowest price at any given time was not likely.
- (c) The Company determined that controlling price risk caused by price spikes similar to the historic storm driven prices experienced in the wake of back-to-back hurricanes in the fall of 2005 is the primary objective of its hedging policy. The Commission, in its Order in Case No. 2003-00192 acknowledged that the goal of a hedging program is “to provide insurance against events such as price spikes”, not the lowest cost.

Futures or swap contracts would allow the Company to set a fixed price which would hedge the price of natural gas should prices spike this winter. The possible use of options contracts would fix an element of gas cost within a defined upper and lower range. The combined effect of the options contracts would be protection of prices above an established fixed price ceiling and reduction of a portion of downward price movements relative to straight swap or futures contracts. The combination of futures and options would provide the price protection for its customers which the Company was seeking at a reasonable cost.

- (d) 100% of all benefits or costs of any hedges would flow through directly to customers as gas costs. The Commission, in its Order in Case 2004-00142, stated that "Since it is customers, not the utility or its shareholders, who stand to receive the benefits realized through a hedging program, we continue to find that customers should bear the cost of such a program".

Atmos Energy's Purchasing Decisions

Exhibit A summarizes hedging transaction dates and details including forecasts of winter gas prices available at the time of the transactions. Market conditions and the forecasts summarized on the exhibit are discussed below. The Company executed futures transactions during periods of rising price trends. Exhibit B provides a graphic summary of NYMEX unweighted prices for the November 2007 through March 2008 winter strip during the summer implementation period. The points at which the Company executed futures transactions are also displayed.

Market Conditions

The chart in Exhibit B shows a trend of generally declining prices from receipt of the hedging order on June 4, 2007 through late October. Within the decline are two periods of relatively steep price declines. From June 4 through July 24 the prompt winter strip dropped \$1.78 to close at \$8.08 by the end of the July 24 trading day. A less dramatic downward trend occurred between August 14 and September 7 when prices declined \$1.33 to close at \$7.352 on September 7, 2007. The higher spring and early summer prices were driven by forecasts of an active hurricane season and warmer than normal summer temperatures. Although Kentucky suffered through a very warm summer, price declines materialized nationwide as the forecasted extensive period of summer heat was more subdued in Texas and the populous Northeast markets. The weather, assisted by high levels of LNG imports (over 4.0 Bcf/day vs. typical 1.0 to 2.0 Bcf/day) enlarged nationwide storage inventories to historically high levels. By the end of storage season natural gas storage inventories of over 3.5 Tcf (trillion cubic feet) exceeded the historic record of 3.45 Tcf set the previous year. The declining period was impacted in late summer and early fall when the relatively tranquil hurricane season failed to significantly impact Gulf of Mexico production

The Company layered in winter season 2007-2008 hedges totaling 1,100,000 MMBtu on five dates between June 27 and October 24, 2007 at a weighted average cost of \$8.288. On October 10, 2007 the Department of Energy forecast for the November 2007 through March 2008 winter season was \$8.42. The transactions are summarized on Exhibit A

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and details are provided in Exhibit C. Exhibit B is a graph showing the price trend and the transaction date points. Exhibit C provides details of the hedging transactions as of October 31, 2007. On Exhibit C the November 2007 delivery month totals are actual settlements. December 2007 through March 2008 are mark-to-market amounts based on the NYMEX prices for those months on October 31, 2007. Actual settlements will vary as the individual delivery months settle. Exhibit D provides the accounting entries.

Impact of Atmos Energy Storage

The Company develops seasonal summer and winter supply plans which set its storage injection and withdrawal levels. Historically, the Company has planned to inject on essentially a ratable basis, both Company storage and pipeline storage, across the injection season (April through October). Withdrawals are similarly scheduled across the winter months, though weather patterns and deliverability are considered in the planned withdrawals. Therefore, the Company's storage levels during the summer and winter were not pivotal in its hedging purchase decisions.

Proposed Modifications

Atmos Energy has engaged in a price stabilization program for its Kentucky customers for the past six winters beginning with winter season 2001-2002. Initial approval for a price stabilization program was granted by The Kentucky Public Service Commission ("Commission") in its Order in Case No. 1997-513 dated June 15, 2001. In each subsequent year an order has been granted with minor variation to the hedging strategy. One element of past and current programs is an implementation period spanning the summer months from receipt of the annual order through October 31 preceding the winter season to be hedged. Under a separate application to be filed in the very near future with the Commission, Atmos Energy will propose two significant changes to the hedging program.

First, the Company will request extending the implementation period from the current one year to a minimum of two years. The benefit of a longer implementation period is to minimize exposure to short-term adverse market conditions. Atmos has received regulatory approval for multi-year hedging in Virginia, Georgia, Louisiana and Mississippi.

Second, the Company will request the Commission to make the Atmos Kentucky financial hedging program permanent. The benefit of permanent approval is to eliminate repetitive annual approval while continuing the same level of Commission oversight. All existing interim reporting requirements will be retained to continue updating the Commission on the progress and results of the hedging program. The Kansas Corporation Commission and the Commonwealth of Virginia State Corporation Commission have approved permanent hedging orders and/or tariffs approving Atmos' applications for permanent hedging programs.

Exhibit B Case 2007-00171
June 2007 – October 2007 Implementation Period
Kentucky

Atmos Energy Corporation - Hedging Report

Regulatory Contract
Market Price Date: 10/31/2007
Transaction Date: 10/31/2007

Delivery Month is greater than or equal to 11/1/2007 and Transaction Date is less than or equal to 10/31/2007 and Rate Division is equal to Kentucky-09

Rate Division: Kentucky-09

Futures/Swaps

Transaction Date	Counter Party Name	Buy	Sell	Delivery Month	Volume	Transaction Price	Transaction Fee	Total Price	Market Price	Market Value	Market Index:	Confirmation Number
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Nov-2007 Delivery Month Totals:

Futures/Swaps

Transaction Date	Counter Party Name	Buy	Sell	Delivery Month	Volume	Transaction Price	Transaction Fee	Total Price	Market Price	Market Value	Market Index:	Confirmation Number
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Dec-2007 Delivery Month Totals:

Negative market values are costs. Positive market values are benefits.

Rate Division: Kentucky-09

Futures/Swaps

Transaction Date	Counter Party Name	Buy	Sell	Delivery Month	Volume	Transaction Price	Transaction Fee	Total Price	Market Price	Market Value	Market Index:	Confirmation Number
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Jan-2008 Delivery Month Totals:

Futures/Swaps

Transaction Date	Counter Party Name	Buy	Sell	Delivery Month	Volume	Transaction Price	Transaction Fee	Total Price	Market Price	Market Value	Market Index:	Confirmation Number
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Feb-2008 Delivery Month Totals:

Futures/Swaps

Transaction Date	Counter Party Name	Buy	Sell	Delivery Month	Volume	Transaction Price	Transaction Fee	Total Price	Market Price	Market Value	Market Index:	Confirmation Number
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Rate Division: Kentucky-09

Futures/Swaps

Transaction Date	Counter Party Name	Buy	Sell	Delivery Month	Volume	Transaction Price	Transaction Fee	Total Price	Market Price	Market Value	Market Index:	Confirmation Number
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Mar-2008 Delivery Month Totals:

	Volume	Weighted Avg.	Market Value
Kentucky-09			
Futures Totals			
Total			
Report Totals			
Futures Totals			
Report Total			

Negative market values are costs. Positive market values are benefits.

Monthly Accounting Entries

2007-Jun	1910	29002	009000	KY-Open Con	102,200.00	0
2007-Jun	2420	27347	009000	KY-Open Con	0	102,200.00

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; i.e. Final costs for November contracts held in 1910 29000 until transferred to 1910 14088 to match up with the production month.

Account Description

1740 Miscellaneous current and accrued assets
 1910 Unrecovered Purchased Gas Costs
 2420 Miscellaneous current and accrued liabilities
 8059 PGA Offset to Unrecovered Gas Cost
 8001 Intercompany Gas Well

Sub Account Description

14088 Recoveries
 27347 Hedging Open Positions
 27348 Hedging Closed Positions
 29000 Unrealized Gas Cost
 29002 MTM-Open Futures Contracts
 04775 PGA Recoveries
 04743 Hedging Settlements