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MODIFICATION OF ATMOS ENERGY CORPORATION'S GAS COST AND ADJUSTMENT TO INCORPORATE PERFORMANCE BASED RATEMAKING MECHANISM (PBR)

CASE NO. 2005-00321

AUGUST 30, 2010

The Law Offices of

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OVERNIGHT DELIVERY

August 30, 2010

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AUG 31 2010
PUBLIC SERVICE COMMISSION

Jeff R. Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
PO Box 615
Frankfort, Kentucky 40602

RE: **Atmos Energy Corporation**
Case No. 2005-00321
Performance Based Rate (PBR) Report

Dear Mr. Derouen:

On behalf of my client, Atmos Energy Corporation, I hereby submit an original non-redacted and eleven (11) redacted copies of the evaluation report required per the above referenced case. In Case No. 2005-00321, the Company agreed to file the evaluation report within ninety (90) days of the end of the fourth year of the five year extension. The attached evaluation report contains four parts:

Tab 1: Submission of Report and Motion to Modify and Extend PBR Mechanism Report.

Tab 2: Report of PBR. The Report consists of three sections which outlines an overview and description of the Company's approach to gas supply purchasing under the PBR, the Company's forward-looking proposals under the PBR and discusses the Company's proposed five-year extension of the PBR and proposed future reporting.

Tab 3: Petition for Confidentiality with detailed and confidential information concerning the program results from April 2006 through May, 2010, attached and marked CONFIDENTIAL.

The Petition for Confidentiality pertains to the discounts afforded the Company through its single source supplier contract with Atmos Energy Marketing, LLC. This information is extremely confidential and has previously been afforded confidential protection by the Commission. This information is both disclosed in and determinable from data appearing through the quantitative results contained in the attachments. Accordingly, it has been redacted in its entirety.

As established by the enclosed Report, the PBR continues to be beneficial to both the Company and its customers. Extending, as modified, the PBR mechanism will continue to provide significant benefits to the Company's customers, as well as its shareholders. Therefore, the Commission is respectfully requested to approve the modification and extension of the PBR mechanism as proposed herein.

Please feel free to call me if you have any questions and/or need any additional information.

Very truly yours,

Mark R. Hutchinson

1 SUBMISSION

2 REPORT

3 PETITION AND CONFIDENTIAL INFORMATION

4 TARIFF

5

TAB 1

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

MODIFICATION OF ATMOS ENERGY CORPORATION'S GAS COST ADJUSTMENT TO INCORPORATE PERFORMANCE BASED RATEMAKING MECHANSIM (PBR)	)))))	**CASE NO. 2005-00321**

SUBMISSION OF REPORT AND MOTION TO MODIFY AND EXTEND PERFORMANCE BASED RATEMAKING MECHANISM

On February 8, 2006, the Commission entered an Order in this proceeding approving an extension, as modified, of Atmos' Performance Based Ratemaking Mechanism ("PBR") for a period of five (5) years. The Commission's Order further required Atmos to file annual reports on the results of the PBR program by August 31 of each year commencing in 2007. The attached report contains the quantitative results of Atmos' PBR program for the period from April, 2006 through May, 2010 and is filed in fulfillment of that requirement.

The attached Report establishes that the PBR has proven to be very beneficial to both the Company's ratepayers and its shareholders. Total measureable gas purchase savings attributable to the PBR for the period from June, 2006 through May, 2010 was nearly $19,000,000. Atmos believes it to be in the best interest of the company and its ratepayers to extend the PBR for a five (5) year period commencing June 1, 2011, with the modifications requested in Section II of the Report.

Atmos anticipates issuing a Request for Proposal for a new gas supply and asset management agreement in November of this year. In order to do so, certainty as to the status of Atmos' PBR in future years is necessary.

WHEREFORE, Company prays: (1) that its Report on the results of the current PBR mechanism be accepted; (2) for entry of an order approving the proposed modifications to the PBR (as described in Section II of the Report) and extending its applicability, as modified, for a period of five (5) years, commencing June 1, 2011; and, (3) for an entry of an order approving the proposed tariff attached as Exhibit "B".

Respectfully submitted this 30 day of August, 2010.

Mark R. Hutchinson
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Douglas Walther
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P.O. Box 650250
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Attorneys for Atmos Energy

CERTIFICATE OF SERVICE

I hereby certify that on the 30 day of August, 2010, the original of this document, together with eleven (11) 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:

Lawrence W. Cook
Assistant Attorney General
Office of Rate Intervention
1024 Capitol Center Drive
Suite 200
Frankfort, Kentucky 40601

Mark R. Hutchinson

TAB 2

ATMOS ENERGY CORPORATION

REPORT ON PERFORMANCE-BASED RATEMAKING
REPORT PERIOD: APRIL 2006 – MAY 2010
KPSC CASE NO. 2005-00321

August 30, 2010

Introduction

This report is designed to fulfill the requirements of the Commission's Order dated February 8, 2006 in this case whereby Atmos Energy Corporation (Atmos) was required to report on the results of the first four (4) years of the five (5) year extension period. This report consists of three sections. Section I. of this narrative provides an overview and description of Atmos' approach to gas supply purchasing under the PBR. Section II. Outlines Atmos' forward-looking proposals under the PBR. Section III. Discusses Atmos' proposed five-year extension of the PBR and proposed future reporting.

I. Overview & Approach to Gas Supply Purchasing Under the PBR

A. <u>Overview</u>

On December 19, 1997, Atmos (then Western Kentucky Gas Company) filed with the Kentucky Public Service Commission ("Commission"), a proposal to implement a Performance-Based Ratemaking ("PBR") mechanism for three years. The PBR was designed to create a system of rewards and penalties that would encourage Atmos to acquire low cost supplies of natural gas. Actual costs are compared to an established benchmark of costs, generally based on market prices for gas, and any excess costs or savings are shared between shareholders and customers. The PBR also serves to eliminate the reasonableness review of gas procurement costs. The Commission had approved a similar plan for Louisville Gas & Electric Company on April 1, 1997. On June 1, 1998, the Commission approved Atmos' proposal with slight modifications. On December 14, 1998, the Commission approved a request by Atmos to change the commencement date of the PBR to July 1, 1998 to synchronize the start of the PBR with the effective date of the new gas supply contract Atmos entered into as a result of the

Commission's PBR approval order. The original three-year pilot was then to run through June 30, 2001. On April 2, 2001, Atmos filed with the Commission a proposal to extend the three-year pilot through March 31, 2002. On June 15, 2001, the Commission approved an extension of Atmos' PBR pilot through March 31, 2002. On September 28, 2001, Atmos filed with the Commission to extend the PBR program for an additional term of five (5) years, commencing as of April 1, 2002. On March 25, 2002, the Commission approved the PBR program, as modified, for a period of four (4) years, commencing as of April 1, 2002. On July 29, 2005, Atmos filed with the Commission a proposal to extend its existing PBR program for two months in order to synchronize the term of the RFP with its current asset management contract and to implement a revised PBR program for a period of five (5) years effective June 1, 2006. On February 8, 2006, the Commission approved Atmos' proposal with slight modifications for a five (5) year term through May 31, 2011.

B. Atmos' Innovative Approach to Gas Commodity Purchases

Atmos' response to the rewards and penalties inherent in the PBR mechanism was to develop a prudent and beneficial gas supply contract that would assure Atmos' continued long-term success in purchasing gas commodity. In designing such a contract Atmos assumed that several key provisions were necessary in order to maximize savings:

- The contract must be competitively bid in order to minimize price,
- A single source supply contract would generate greater discounts,
- A comprehensive gas supply contract would encourage bids without supply reservation fees,
- Maximizing the term of the contract and the "opportunities" available to potential bidders under the contract would further maximize bids, and
- The contract must be expressed in price terms that mirror the pre-established benchmarks under the PBR in order to assure measurability against those benchmarks and as well as savings.

Further, Atmos believed that retaining key operational controls and establishing strict performance requirements for the supplier would be necessary to ensure that by limiting itself to a single source of supply it would not be jeopardizing the reliability of its supply, particularly during periods of peak demand.

Ultimately, Atmos developed a Request for Proposal (RFP) and solicited bids from a large number of reputable suppliers who might be interested and capable of providing highly competitive bids under the sophisticated terms proscribed in the RFP.

The key features of the RFP reflected the assumptions noted above. Among those key features were:

- A five-year contract (coinciding with the authorized term of the PBR extension period), Atmos also sought proposals for alternative term lengths of two, three and four year periods,
- A single source provider for all of Atmos' firm system supply (approximated at 20.4 Bcf, including 11.4 Bcf of pipeline and on-system storage),
- A single contract price per delivered unit of commodity gas for the "full-requirements" of the contract to be bid as a discount or premium to the simple arithmetic average of the "basket" of indices (NYMEX, Inside FERC, Natural Gas Week and Gas Daily) established in the PBR, or a guaranteed up-front payment which represents a fixed discount or premium and is not directly tied to per unit natural gas purchases.
- No provision for supply reservation fees,
- Assignment of the management of all of Atmos' firm transportation and storage contracts to the sole supplier as a "value-added" contract feature,
- Assumed storage injection and withdrawal in accordance with seasonal plans, and
- A commission (10%) paid to the supplier to encourage capacity release of unused firm transportation and storage contracts.

Also, Atmos incorporated the Commission's directives in Case No. 2002-00245 as well as recommendations from the report issued by the Liberty Consulting Group into all future RFPs.

The objective of Atmos' "full-requirements" contract was to extract the lowest cost bid possible from potential bidders through the enticement offered by the largest and most comprehensive contract possible. The RFP combined Atmos' full firm gas commodity requirements with all of Atmos' transportation and storage contracts. Hence, potential suppliers were assured of the opportunity to supply Atmos' large, firm market for five years plus the additional opportunity to leverage Atmos' substantial transportation capacity and storage assets beyond the actual supply requirements of that market. In particular, the assignment of the management of Atmos' transportation and storage assets to the potential supplier was viewed as a "value-added" feature that would encourage an additional level of discounting by bidders. Despite the breadth and supplier flexibility inherent in a "full-requirements" contract, Atmos also retained full operational control through mandatory compliance with a prescribed seasonal storage and operational plan, and non-performance penalties and remedies.

Atmos' contract excludes any supply reservation fees. Reservation fees are often charged by wholesale gas suppliers in order to reserve up to certain volumes for delivery to the LDC when needed. In essence, a reservation fee is payment for gas supply "call rights" which may or may not be needed by the LDC. Although reservation fees are a common feature in LDC gas contracts, the successful bids for this contract excluded reservation fees. Historically, Atmos paid a variety of suppliers reservation fees (based on the prevailing rate of gas) in order to ensure its ability to "call" up to certain contract quantities and guarantee supply during periods of heavy demand. Atmos was able to avoid reservation costs by establishing a comprehensive, full requirements gas supply contract which included an asset management feature that provided the supplier with known volumes for delivery under the contract. Through assignment of the management of Atmos' transportation and storage assets, Atmos was able to avoid the cost of reservation fees without any loss of deliverability.

Ultimately, the value inherent in Atmos' innovative RFP was exhibited through the receipt of significantly discounted bids for commodity gas. The discounted cost of gas combined with guaranteed up-front discounts obtained through this bidding process ultimately accounted for a majority of the savings generated under the PBR during program's twelve (12) years of existence.

- Risks Experienced Under the PBR

The success achieved under Atmos' PBR has not been without risk. Atmos has experienced first-hand two specific types of risk under the Gas Commodity Cost component. The first type of risk experienced was the risk of supply failure. The second type was price risk.

- Risk of supply failure

Atmos' decision to consolidate all of its supply requirements with a single supplier carried the risk that non-performance by that supplier could disrupt supply to Atmos' end users. This issue triggered a series of events that were investigated by the Commission in Case No. 99-447. That investigation centered around Atmos' decision to enter into an agreement to allow its original gas supplier, Reliant Energy Services, to terminate its contract with Atmos 13 months into the original 36-month term through a mutually negotiated buyout, and then replace supplier with Atmos Energy Marketing, LLC (AEM and then was named Woodward Marketing, LLC), an affiliate of Atmos. Reliant is a reputable gas marketer and was the lowest bidder in response to Atmos' RFP. AEM, also a reputable supplier, was the second lowest bidder.

In this situation, the risk faced by Atmos was the possibility that Reliant might fail to meet all its supply obligations to Atmos and Atmos' customers as a result of Reliant's growing dissatisfaction with the original gas supply contract. Reliant claimed to be losing significant amounts of money under the contract and did not foresee an improvement in its ability to perform under the contract. Reliant wanted to buy out the remaining term of the contract. Because of this, Atmos became concerned about Reliant's ability to perform according to all of the terms and conditions contained in the contract. After informing the Commission, Atmos chose to allow Reliant to buy out its contract rather than risk non-performance.

Atmos turned to AEM because it was the runner-up in the competitive bidding process. AEM was also willing to stand by its original bid. AEM's original bid, in conjunction with the up-front buyout by Reliant, would produce savings for customers that were essentially equivalent to the original discount provided under the Reliant contract. Moreover, because the market had turned more bearish at that time Atmos did not anticipate that re-bidding its contract would produce a better result than contracting with AEM.

After the investigation conducted in Case No. 99-447, the Commission, in its April 14, 2000 Order, concluded that "The possibility of NorAm, now Reliant Energy Services ("Reliant"), taking on an unacceptable level of risk in order to minimize its losses was a sufficient threat to supply reliability to explain Atmos' actions in the contract termination." The Commission further found that Atmos had acted appropriately in allowing the buyout and contracting with AEM for the remainder of the three years. The Commission has granted two additional renewals which extended the PBR program for an additional nine (9) years. During the last eight (8) years of the nine (9) year extensions, the risk of supply failure has been nonexistent.

The risk experienced by Atmos, and its customers, was the potential risk of supply failure resulting from only one source of supply. The benefit for taking this risk was the low cost of gas bid by Atmos' supplier as a result of the innovative RFP. The movement to a single source of supply under the PBR created a classic risk-reward scenario for Atmos and its customers. The successful resolution of this problem demonstrates that properly managed risk-taking encouraged by the incentives inherent under a PBR can produce benefits for Atmos and its customers. Indeed, Atmos and its customers continue to benefit from this trade-off under the existing single source supply contract.

- Price risk

Atmos' other first-hand experience with significant risk under the pilot PBR occurred in December 2000 as a result of rapidly escalating wholesale cost of gas during a period of heavy demand. The significant discount to the prevailing market price achieved by Atmos under its gas supply contract did not insulate Atmos or its customers from significant price increases when market prices sky-rocketed to between $9-10 per

Mcf in late December following two consecutive months of record cold weather and heavy demand. Atmos' operational plan calls for the monthly purchase of base loads and swing purchases of additional requirements as necessary. Atmos' monthly purchases are set at the first of the month prices. Atmos also makes intra-month swing purchases based on the daily prevailing market price. Atmos has no other alternative but to purchase swing supplies when customer demand exceeds first of the month purchases and storage deliverability. In December 2000, Atmos was required to make swing purchases due to the extreme cold weather. As a result of the swing purchases, Atmos incurred an average actual price for supplies purchased in December 2000 in excess of the benchmark price.

The downside of Atmos' price risk under the PBR was realized at that time. Under high prices and constrained supply (due to cold weather and heavy demand) Atmos had no choice but to pay more for some gas supplies than the benchmark price established under the PBR. However, there were two benefits associated with Atmos' purchase of swing supplies in December 2000. The first benefit was the assurance of continued service. That is, Atmos' price risk was offset by the greater risk of supply failure. The second relates to the price paid by Atmos' customers for these purchases. Ordinarily, Atmos' customers would have paid the full price of these purchases. Under the PBR, however, Atmos' customers benefited because they actually paid only half the difference between the PBR benchmark and the purchase price. Atmos' shareholders absorbed the other half – over $1,000,000. This demonstrates that even under the PBR, such price risk is unavoidable if Atmos is to retain its ability to meet increased customer demand through swing purchases.

The price risk experienced under the PBR in December 2000 is not atypical of the risk faced by LDC's and their customers. Nor is the risk of supplier failure. Some form of price risk and supply risk is always present. Under the PBR, however, Atmos' customers benefited from risk, because risk can be managed to create lower costs and shared savings for both the customer and shareholders.

Atmos was able to modify its existing mechanism in Case No. 2005-00321 to attempt to offer vendors options in bidding which may help to prevent price risk. The Gas Acquisition Index Factor for Asset Management (GAIFAM) gave vendors the option to bid a fixed discount or premium that would not directly be tied to per unit natural gas purchases. If implemented, the GAIFAM would help mitigate price risk by locking in a guaranteed amount. In approving Atmos' current supply contract in Case No. 2006-00194 which included a guaranteed up-front discount, the Commission helped shield customers from an extremely volatile natural gas market which existed through 2008.

C. Atmos' Innovative Approach to Transportation Purchases

Primarily, Atmos' approach to the Transportation Cost Component of the PBR was to seek out and negotiate the steepest possible discounts from FERC-approved transportation rates with its existing pipeline suppliers. To a lesser degree, the Transportation Cost Component also encouraged Atmos to generate capacity release revenues.

1. Pipeline Discounts

It is difficult for Atmos to obtain pipeline discounts. Atmos does not have reasonable access to alternative pipeline supply sources. Over many decades, Atmos' system was constructed along the Texas Gas and Tennessee Gas pipelines because those were the only alternatives available to Atmos in order to obtain our supply. Atmos' markets are rural and dispersed, and not integrated in such a way that has encouraged more pipelines into our region whereby alternative access would be made available. To the extent new capacity has been constructed into our region that capacity has been dedicated to larger urban markets. Nevertheless, even with a lack of access to broad pipeline alternatives, Atmos has been able to secure some service on a limited basis from Trunkline, Midwestern and ANR pipelines. As existing pipeline contracts have come up for extension or re-negotiation, Atmos has aggressively used alternative pipeline suppliers and potential service from those alternative suppliers as a bargaining tool to negotiate meaningful discounts. As a result, Atmos has been able to renegotiate transportation capacity arrangements producing more than $1,200,000 in savings during the last four years of the program and approximately $5,700,000 since the program's inception. Atmos always seeks to obtain the lowest cost transportation services for its customers; however, the PBR provides an even greater inducement to seek out and maximize those discounts.

2. Capacity Release

Atmos had been releasing under-utilized pipeline capacity for several years when the PBR began. Hence, as part of the PBR, the Commission established a capacity release threshold equivalent to the value of Atmos' capacity release revenues in prior years. All capacity released revenue below that threshold would be returned to Atmos' ratepayers under the PBR. Above that threshold, Atmos' ratepayers would share equally with Atmos' shareholders in revenue generated by released transportation capacity. One of the challenges with a capacity release threshold however is that there is no assurance of capacity release sales above that threshold. In fact, there is no assurance that capacity release sales would even reach the threshold. Given the increased availability of released capacity on the market, there is a significant uncertainty associated with capacity release. With increased unbundling and FERC policies designed to increase the amount of capacity on secondary markets, the incentive to market unused capacity is diminished. Moreover, in a more competitive environment, pursuit of a capacity release sales program would be an increasingly time consuming and costly process for Atmos' administrative personnel. That administrative cost would somewhat offset any revenues derived from Capacity Release. The Commission eliminated the threshold requirement in the Order for Case No. 2001-00317.

Given these challenges, Atmos established a commission-based sales program within its gas supply contract which ensured its supplier a fixed, ten percent (10%) sales commission for each dollar of capacity released. This approach to marketing capacity release encouraged Atmos' supplier to continuously market capacity release in order to extract greater value from it, whether or not the threshold was achieved, while minimizing the cost of that process. Capacity Release savings were $1,360,239 for the period June 2006 through May 2010. Total Capacity Release savings are approximately $3,485,000 for the period July 1998 through May 2010.

Ultimately, the improved efficiencies obtained from Atmos' transportation contracts and the savings derived from our supplier's capacity release program resulted in significant savings achieved under Transportation Cost components of the PBR.

D. Atmos' Innovative Approach to Marketing to Off-system Sales

The Off-system Sales mechanism was designed to encourage Atmos to market to non-Atmos customers gas commodity which might be purchased as base load but, from time to time, might not be needed by Atmos' customers. Like the Capacity Release component of the Transportation Cost mechanism, the Off-system Sales mechanism was designed to encourage Atmos to sell an under-utilized resource. In this case, that resource is gas commodity. By crediting half of all Off-system Sales revenue to Atmos' customers, they would incur a lower cost of commodity gas.

To Atmos, the Off-system Sales mechanism represented an opportunity with an uncertain value. Future weather conditions and other consumption factors made the future demand for gas uncertain. Similarly, it was also uncertain what price Atmos could get for its gas at a time when Atmos' own customers did not need it. There was also an administrative cost to be borne in order to broker the gas off-system. Like the cost to market Capacity Release, that administrative cost would somewhat offset the value of any Off-system Sales revenue.

To address these uncertainties and minimize any administrative costs to be incurred by Atmos, Atmos' RFP was designed to exchange the potential net value of any Off-system Sales which could be generated by assigning the management of Atmos' storage and transportation assets over to its gas supplier. This was described in section B above as the "value-added" feature of Atmos' "full requirements" gas contract. To the extent that Atmos' customers did not require their base load supplies of gas, the gas supplier would be free to market that gas off-system just as Atmos could have under the Off-system Sales mechanism. We believe this was an innovative approach to this mechanism because the uncertain value of what revenue could be potentially generated through Atmos' Off-system Sales was exchanged up-front for the known value of a more deeply discounted cost of gas commodity without incurring any extra administrative costs. The Commission ordered in Case No. 2001-00317 the OSSIF to be expanded to include off-system sales of storage services.

II. Forward-Looking Proposals

A. Continuation of Existing Mechanisms

With only minor technical modifications, Atmos proposes to retain all of the existing features of its PBR mechanism. Specifically, Atmos proposes to retain the Gas Commodity Cost component mechanism, the Transportation Cost component mechanism, the Off-system Sales component mechanism and the Balance Adjustment. Although the Off-system Sales component mechanism has not been directly utilized during the program, Atmos proposes to retain this mechanism should future circumstances support direct utilization of this mechanism.

In support of its proposal, Atmos reiterates the following successes of its PBR program:

- By adhering to the benchmark standards of performance in the PBR, Atmos has produced prudent gas purchases with measurable savings totaling $18,905,527 over the four-year period of June 2006 through May 2010, with the majority of those savings going to customers. Those savings would not have been realized in absence of the PBR mechanism.
- A key feature of the PBR is the establishment of a known, pre-determined, and directly observable benchmark, the assurance that Atmos' gas procurement performance will be measured against that benchmark, and that rewards or penalties will be earned based on that benchmark. Foreknowledge of that benchmark gives the Company confidence as to how its behavior will be judged. The assurance of the standard of prudence and the opportunity to share rewards has led Atmos to undertake certain calculated risks to create savings under the PBR. In the absence of an incentive plan, such as the PBR, Atmos lacks the appropriate incentives to incur the additional risks without the potential to earn rewards for that behavior.
- Specifically, the PBR induced a beneficial change in Atmos' behavior by encouraging it to test new and different ways to purchase gas supplies in order to generate shared savings that it otherwise lacked the incentive to pursue.

- The PBR encouraged Atmos to develop an innovative Request for Proposal (RFP) for its new gas supply contract that directly incorporated the PBR benchmarks and mechanisms.
- Each of the existing PBR mechanisms was directly or indirectly utilized to produce measurable savings. The savings from Off-system Sales mechanism were achieved indirectly through the assignment of the management of Atmos' storage and transportation assets as a "value-added" feature of Atmos' gas supply contract.
- The PBR mechanism has encouraged Atmos to save approximately $41,500,000 from July 1998 through May 2010, with the majority of those savings going to customers.
- We are confident that by pursuing some of the same innovative approaches to gas supply contracting, within the same context of incentives and penalties, the PBR will produce significant shared savings for Atmos and its customers in subsequent years.

B. Modifications to Existing Mechanisms

Atmos proposes only limited changes to its existing PBR mechanisms. Atmos proposes to simplify its benchmark calculation by eliminating two of the four indices that are currently averaged together for the Supply Area Index factor for Base Load (SAIBL) and the Delivery Area Index factor for Base Load (DAIBL). Currently, Atmos averages Natural Gas Week, Gas Daily, Inside FERC, and NYMEX for SAIBL and DAIBL. Atmos proposes to eliminate the Natural Gas Week and Gas Daily indices from the baseload calculation since neither index pertains directly to first-of-month or baseload purchases. Atmos proposes to eliminate Natural Gas Week since that publication is a weekly index and prices are not indicative of first-of-month or baseload pricing. While the cost of the publication is not significant, Atmos would have an opportunity to reduce costs by canceling its Natural Gas Week subscription. Natural Gas Week is only used for the KY PBR mechanism and the subscription would not be needed if the Commission approved our proposal. The same is also true for the Gas Daily index in regards to first-of-month or baseload pricing. Atmos believes that the Gas Daily index is appropriately used for benchmarking swing or incremental purchases, but should not be included in benchmarking first-of-month or baseload purchases. These proposed changes should also be well received by potential vendors. Atmos is planning to issue its next RFP in November and will include any approved changes in that RFP. It has been Atmos' experience that when potential vendors bid an index for first-of-month or baseload purchases, the index cited is either Inside FERC or NYMEX. Also, Atmos believes that these proposed changes do not give one vendor an advantage over the others and maintains the existing level playing field.

III. Extension Period & Future Reporting

A. Extension Period

Atmos' original PBR mechanism was for an experimental period of three years, and then was extended for an additional nine years. This report shows that during the eleven (11) years the PBR mechanism has been in existence, the program has resulted in significant savings for customers. Therefore, Atmos proposes to extend its PBR mechanism as modified for an additional term of five years, that is, through May 31, 2016. A longer term will help ensure meaningful benefits for customers because this PBR mechanism has proven to be effective, and a longer experimental period without the uncertainty of expiration may enable Atmos to achieve greater savings.

Atmos proposes a term for its modified experimental PBR mechanism of five years. However, if an external event occurs, such as an Order or rulemaking of the Federal Energy Regulatory Commission ("FERC"), which clearly and uncontrollably affects the benchmarks or some other aspect of the PBR mechanism, Atmos and the Commission should reserve the right to modify or terminate the program.

B. Future Reports

Within ninety (90) days of the end of the fourth year of the five-year extension, Atmos will file an evaluation report on the results of the PBR for the first four (4) years of the extension period. Atmos will make any recommended modifications to the PBR mechanism, and the Commission will be able to review and act upon any proposed changes to the mechanism at that time. Such procedure will add certainty to the nature of the mechanism by establishing a review and approval process with a known timeline.

TAB 3

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:	)
	)
MODIFICATION OF ATMOS ENERGY	)
CORPORATION'S GAS COST ADJUSTMENT	) **CASE NO. 2005-00321**
TO INCORPORATE PERFORMANCE-BASED	)
RATEMAKING MECHANISM (PBR)	)

PETITION FOR CONFIDENTIALITY OF CERTAIN INFORMATION BEING FILED WITH THE KENTUCKY PUBLIC SERVICE COMMISSION WITH THE ANNUAL REPORT ON ATMOS ENERGY CORPORATION'S PERFORMANCE BASED RATEMAKING MECHANISM

Atmos Energy Corporation ("Atmos Energy" or "Company"), respectfully petitions the Kentucky Public Service Commission ("Commission"), pursuant to 807 KAR 5:001, Section 7, and all other applicable law, for confidential treatment of the information contained in the attached document. In support of this petition, Atmos Energy states as follows:

1. On February 8, 2006, the Commission entered an Order in case no. 2005-00321 approving an extension, as modified, of Atmos' Experimental Performance Based Ratemaking Mechanism ("PBR") for a period of five (5) years. The Commission's Order further required the Company to report on the results of the PBR program for the first four (4) years of the five (5) year extension. The attached report contains the

quantitative results of Atmos' PBR program for the period of April 2006 through May, 2010 and is filed in fulfillment of that requirement.

2. The Company's current gas supply contract is with a single source supplier, Atmos Energy Marketing, Inc. ("AEM"). It contains significant pricing discounts. In order to fully report to the Commission the results of the Company's current PBR program, disclosure of the discounts on gas purchases provided in the current supply contract is required. In order to protect the confidentiality of that information, not only must the discount themselves be redacted in the non-confidential version, but all information from which the discount could be calculated, must likewise be redacted. Since this information is both disclosed in, and determinable from, data appearing throughout the quantitative results contained in Exhibit "A", the entire Exhibit "A" has been redacted.

3. This type of information has been determined by the Commission in Atmos ' prior PBR proceedings to be entitled to confidential protection. Nothing has occurred since the Commission granted confidential protection to this type of information that would now disqualify it from protection. The Company accordingly petitions the Commission to again treat this information as confidential.

4. Pursuant to 807 KAR 5:001, Section 7 (3), temporary confidentiality of the information sought to be protected herein should be maintained until the Commission enters an orders as to this Petition. Once the order regarding confidentiality has been issued, Western would have twenty (20) days to seek alternative remedies pursuant to 807 KAR 5:0001, Section 7 (4).

WHEREFORE, Company petitions the Commission to treat as confidential the information contained in the attached.

Respectfully submitted this 30 th day of August, 2010.

Mark R. Hutchinson
WILSON, HUTCHINSON, POTEAT &
LITTLEPAGE
611 Frederica Street
Owensboro, Kentucky 42301
(270) 926-5011

Douglas Walther
Atmos Energy Corporation
P.O. Box 650250
Dallas, Texas 75265

Attorneys for Atmos Energy

VERIFICATION

I, Mark A. Martin, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs Kentucky Midstates Division for Atmos Energy Corporation, and that the statements contained in the foregoing Petition are true as I verily believe.

Mark A. Martin

CERTIFICATE OF SERVICE

I hereby certify that on the 30 day of August, 2010, the original of this Petition, with the Confidential Information for which confidential treatment is sought, together with eleven (11) copies of the Petition without the confidential information, 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:

Lawrence W. Cook
Assistant Attorney General
Office of Rate Intervention
1024 Capitol Center Drive
Suite 200
Frankfort, Kentucky 40601

Mark R. Hutchinson

ATMOS\PBR\CASE NO. 2005-00321\
PETITION FOR CONFIDENTIALITY
August 2010

Atmos Energy Corporation
Kentucky Division
PBR Results (June 2006 - May 2010)

		Commodity Discount	Transport Discount	Capacity Release	Total Monthly Savings	Atmos KY Share
Jun-06	$					
Jul-06	$					
Aug-06	$					
Sep-06	$					
Oct-06	$					
Nov-06	$					
Dec-06	$					
Jan-07	$					
Feb-07	$					
Mar-07	$					
Apr-07	$					
May-07	$					
2006-2007 Total	$					
Jun-07	$					
Jul-07	$					
Aug-07	$					
Sep-07	$					
Oct-07	$					
Nov-07	$					
Dec-07	$					
Jan-08	$					
Feb-08	$					
Mar-08	$					
Apr-08	$					
May-08	$					
2007-2008 Total	$					
Jun-08	$					
Jul-08	$					
Aug-08	$					
Sep-08	$					
Oct-08	$					
Nov-08	$					
Dec-08	$					
Jan-09	$					
Feb-09	$					
Mar-09	$					
Apr-09	$					
May-09	$					
2008-2009 Total	$					
Jun-09	$					
Jul-09	$					
Aug-09	$					
Sep-09	$					
Oct-09	$					
Nov-09	$					
Dec-09	$					
Jan-10	$					
Feb-10	$					
Mar-10	$					
Apr-10	$					
May-10	$					
2009-2010 Total	$					
2006-2010 Total	$					

TAB 4

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

"i" represents each supply area.

PEFDCQBL are the Base Load Purchases in Excess of Firm Daily Contract Quantities delivered to WKG's city gate. Firm Daily Contract Quantities are the maximum daily contract quantities which Company can deliver to its city gate under its various firm transportation agreements and arrangements.

SAIBL is the Supply Area Index factor for Base Load to be established for each supply area in which Company has firm transportation entitlements used to transport its natural gas purchases and for which price postings are available. The five supply areas are TGT-SL (Texas Gas Transmission-Zone SL), TGT-1 (Texas Gas Transmission-Zone 1), TGPL-0 (Tennessee Gas Pipeline-Zone 0), and TGPL-1 (Tennessee Gas Pipeline-Zone 1), and TGC-ELA (Trunkline Gas Company-ELA).

The monthly SAIBL for TGT-SL, TGT-1, TGPL-0, TGPL-1, and TGC-ELA shall be calculated using the following formula:

$$SAIBL = [I(1) + I(2)] / 2$$ (T)

Where:

"I" represents each index reflective of both supply area prices and price changes throughout the month in these various supply areas.

The indices for each supply zone are as follows:

SAIBL (TGT-SL)

I (1) is the Inside FERC – Gas Market Report first-of-the-month posting for Texas Gas Zone SL. (T)
I (2) is the New York Mercantile Exchange Settled Closing Price.

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

SAIBL (TGT-1)

I (1) is the Inside FERC – Gas Market Report first-of-the-month posting for Texas Gas Zone 1.
I (2) is the New York Mercantile Exchange Settled Closing Price. (T)

SAIBL (TGPL-0)

I (1) is the Inside FERC – Gas Market Report first-of-the-month posting for Tennessee Zone 0. (T)
I (2) is the New York Mercantile Exchange Settled Closing Price.

SAIBL (TGPL-1)

I (1) is the Inside FERC – Gas Market Report first-of-the-month posting for Tennessee Zone 1.
I (2) is the New York Mercantile Exchange Settled Closing Price. (T)

SAIBL (TGC-ELA)

I (1) is the Inside FERC – Gas Market Report first-of-the-month posting for Trunkline Louisiana. (T)
I (2) is the New York Mercantile Exchange Settled Closing Price.

ATMOS ENERGY CORPORATION

PBR

Experimental Performance Based Rate Mechanism (Continued)

DAIBL is the Delivery Area Index factor for Base Load to be established for purchases made by Company when Company has fully utilized its pipeline quantity entitlements on a daily basis and which are for delivery to Company's city gate from Texas Gas Transmission's Zone 2, 3 or 4, Tennessee Gas Pipeline's Zone 2, or Trunkline Gas Company's Zone 1B.

The monthly DAIBL for TGT-2, 3, 4, TGPL-2, and TGC-1B shall be calculated using the following:

DAIBL = [I (1) + I (2)] / 2 (T)

DAIBL (TGT-2, 3, & 4), (TGPL-2) and (TGC-1B)

I (1) is the average of the daily high and low Gas Daily postings the Daily Price Survey for Dominion – South Point-Appalachia (T)
I (2) is the Inside FERC – Gas Market Report first-of-the-month posting for Prices of Spot Gas Delivered to Pipeline for Dominion Transmission Inc. – Appalachia.

TAAGCCBL represents Company's Total Annual Actual Gas Commodity Costs for Base Load deliveries of natural gas purchased for system supply and is equal to the total monthly actual gas commodity costs.

To the extent that TAAGCCBL exceeds TABGCCBL for the PBR period, then the GAIFBL Shared Expenses shall be computed as follows:

GAIFBL Shared Expenses = TAAGCCBL - TABGCCBL

To the extent that TAAGCCBL is less than TABGCCBL for the PBR period, then the GAIFBL Shared Savings shall be computed as follows:

GAIFBL Shared Savings = TABGCCBL - TAAGCCBL

ISSUED: August 27, 2010 **EFFECTIVE:** November 1, 2010

ISSUED BY: Mark A. Martin Vice President – Rates & Regulatory Affairs, Kentucky/Mid-States Division