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FEDERAL EXPRESS

January 6, 2006

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

RECEIVED

JAN 9 2006

PUBLIC SERVICE
COMMISSION

RE: Response of Atmos Energy Corporation to Comments of the Attorney General
Case No. 2005-00321

Dear Ms. O'Donnell:

I am enclosing herewith an original, plus eleven (11) copies of a Response of Atmos Energy Corporation to Comments of the Attorney General in case no. 2005-00321 for filing in your office. Please return one stamped file copy to me. Thanks.

Very truly yours,



Mark R. Hutchinson

MRH:bkk

Enclosures

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

RECEIVED

JAN 9 2006

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

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

**RESPONSE OF ATMOS ENERGY CORPORATION
TO COMMENTS OF THE ATTORNEY GENERAL**

Comes now Atmos Energy Corporation (“Atmos” or the “Company”) and submits comments in the above-referenced Case pursuant to the Order by the Kentucky Public Service Commission (the “Commission”) entered in this matter on December 16, 2005. The Intervenor in this Case, the Attorney General of the Commonwealth of Kentucky (the “AG”) submitted written comments on the Company’s proposal on December 27, 2005, but did not request a hearing or informal conference.

The Company, in its Application filed on July 29, 2005, submitted a Report on the results of the current PBR mechanism for acceptance by the Commission, sought authorization for a two month interim extension of the current PBR (to June 1, 2006) to synchronize the tariff with the expiration of the Company’s current gas supply contract, and sought an order approving the proposed PBR mechanism, including certain modifications for a period of five (5) years, commencing June 1, 2006. The PBR is designed to create a system of rewards and penalties that encourage the Company to acquire low cost supplies of natural gas. As indicated in the Report

filed by the Company, the current PBR mechanism has proven to be very beneficial to both the Company's ratepayers and its shareholders. Total savings attributable to the PBR for the 3 year period from April 2002 through March 2005 are more than \$9,000,000. Customers have realized gas cost savings of nearly \$6,150,000 for that three-year period.

The Company has been fully responsive to data requests from the Commission and the AG in accordance with the procedural schedule established in this Case by Commission Order dated August 16, 2005. Additionally, at the request of the AG, the Company participated in an informal teleconference on this matter with the AG on November 22, 2005. Extensive background information was provided by the Company to the AG concerning the PBR and its historical performance during the conference.


The results of the current PBR have proven successful, and it is noteworthy that the AG's comments filed on December 27, 2005 are exclusively focused on certain modifications to the PBR proposed by the Company as opposed to objecting to the PBR mechanism itself. The AG's comments are directed to the proposal to adjust the 50:50 sharing threshold from 2% of total gas costs to 1% and the proposal to incorporate a fixed discount component option for potential suppliers bidding for the full-requirements supply contract with the Company. In the data requests and in the informal conference with the AG, Atmos advocated the merits of each of these proposed modifications.

Prior to the current PBR, all savings/costs attributable to the PBR mechanism were shared

50:50 between the Company and the customers. In the current PBR, savings/costs are shared 30:70 respectively between the Company and customers for savings/cost levels up to 2% of the total gas cost. Incremental savings/costs greater than the 2% threshold are split 50:50. Due to much higher gas costs today in comparison to the gas costs when the threshold was set four years ago, the 2% threshold is basically unattainable. Resetting the threshold to 1% merely establishes a realistic incentive for the Company to stretch its creative gas acquisition strategies to increase its share of benefits or avoid an increased share of costs.

Introducing the option for potential suppliers to include a fixed discount component to their full-requirements supply bid is intended to maximize the value of the bids and to lower the overall gas supply costs to the customer. As the Company has pointed out, this new feature is not a bid requirement, simply an option for bidders. If this feature is approved, and bids may be structured with this component, the Company will be able to assess the value of the GAIFAM in the RFP selection process. For example, assume two competing bids are received, one with a fixed discount versus one with the discount expressed on a volumetric basis, each with a 5-year term. The Company could analyze the probability of weather variances and other volume-affecting factors over the term to determine the value of the “per Mcf” bid, and then compare that value to the fixed annual discount proposal. Benefits or disadvantages to the competing bids will be quantifiable. The GAIFAM is merely introducing the option for an alternative bid structure; whether the allowance proves beneficial to efforts to lower gas costs will be evident before choosing a bid with such a structure.

Respectfully submitted this 6 day of January, 2006.



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CERTIFICATE OF SERVICE

I hereby certify that on the 6 day of January 2006, the foregoing document was sent by facsimile transmission, and the original, together with eleven (11) copies, were sent by overnight delivery to 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