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April 28, 2006

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

*Case No. 2006-00177*

RE: Atmos Energy Company/Motion to Accept Final Report of  
Hedging Program and to Conduct Hedging Program for the Winter  
of 2006-2007

Dear Ms. O'Donnell:

I am enclosing herewith an original, plus eleven (11) copies of a Motion to Accept Final Report of Hedging Program and to Conduct Hedging Program for the Winter of 2006-2007. Please return one stamped file copy to me. Thanks.

Very truly yours,

*Mark R. Hutchinson*  
Mark R. Hutchinson *by BK*

MRH:bkk

Enclosures

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
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IN THE MATTER OF:

The Final Report of Atmos Energy Corporation on Its  
Hedging Program for the 2005-2006 Heating Season  
And Motion to Conduct a Hedging Program for the 2006-  
2007 Heating Season

)  
) Case No.  
) 2006-00177  
)

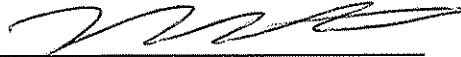
**MOTION TO ACCEPT FINAL REPORT OF HEDGING PROGRAM**  
**AND TO CONDUCT HEDGING PROGRAM FOR THE**  
**WINTER OF 2006-2007**

Comes now, Atmos Energy Corporation ("Atmos Energy") and pursuant to Commission's Order of July 20, 2005, in Case No. 2005-00175, files herewith its final hedging report identifying, inter alia, gas cost savings or costs realized under Atmos Energy's hedging program. In accordance with Orders pertaining to prior hedging programs, 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 2005-2006.

Atmos Energy's hedging program has proven successful in stabilizing gas costs over the past several years. 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 2006-2007".

Respectfully submitted this 27 day of April, 2006.



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Owensboro, Kentucky 42301  
(270) 926-5011

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 27 day of April, 2006, 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

ATMOS ENERGY – Kentucky Division  
FINAL HEDGING REPORT: WINTER 2005-2006  
April 27, 2006

The Kentucky Public Service Commission (“Commission”) requested in its Order in Case No. 2005-00175, dated July 20, 2005, that Atmos Energy Corporation (“Atmos Energy” or the “Company”) provide the Commission with a final hedging report within 30 days of the March 31, 2006 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”.

This report summarizes the results of the Company’s hedging program for the winter of 2005-2006, and describes the hedging program proposed by Atmos Energy for the upcoming winter of 2006-2007 for approval by the Commission.

Hedging Results for Winter 2005-2006

As described in the Company’s November 30, 2005 interim report, due to the extraordinary impact on natural gas market prices of back-to-back hurricanes, the rather short hedging implementation period, and the increased availability of company storage, the Company did not purchase financial hedges for Winter 2005-2006. Since no financial hedges were implemented this report does not include a summary of hedging transactions or accounting entries.

Please refer to Exhibit A “Winter 2005-2006 NYMEX Strip” for a chart showing the winter month futures pricing from July 20, 2005 through October 2005. Actual closing NYMEX prices for the winter months were as follows:

Month	\$/mmBtu
November 2005	13.83
December 2005	11.18
January 2006	11.43
February 2006	8.40
March 2006	7.11
Winter Average	10.39

The average actual winter price is plotted on Exhibit A, showing that only the initial period immediately following approval of Atmos Energy’s hedging plan were below the actual winter strip. During that brief period, with prices consistently rising, market conditions were not suitable for purchasing hedges. The remainder of the hedging implementation period produced futures prices much greater than the actual winter strip (as much as \$4/mmBtu). The Company’s disciplined approach, which in this case resulted in no hedging purchases, was clearly beneficial to the customers. With the Company’s additional storage capabilities, which

now equate to 2/3 of the total winter sales demand, Atmos Energy's objectives for relatively stable and low prices, however, were still achieved.

#### Atmos Energy's Hedging Program Proposed for the Winter of 2006-2007

By application accompanying this report, Atmos Energy is proposing a hedging plan for the upcoming winter of 2006-2007. The proposal for the upcoming winter will duplicate the hedging plan approved by the Commission for the past three winters under Case Nos. 2003-00192, 2004-00142 and 2005-00175.

Atmos Energy's proposal for the 2006-2007 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.

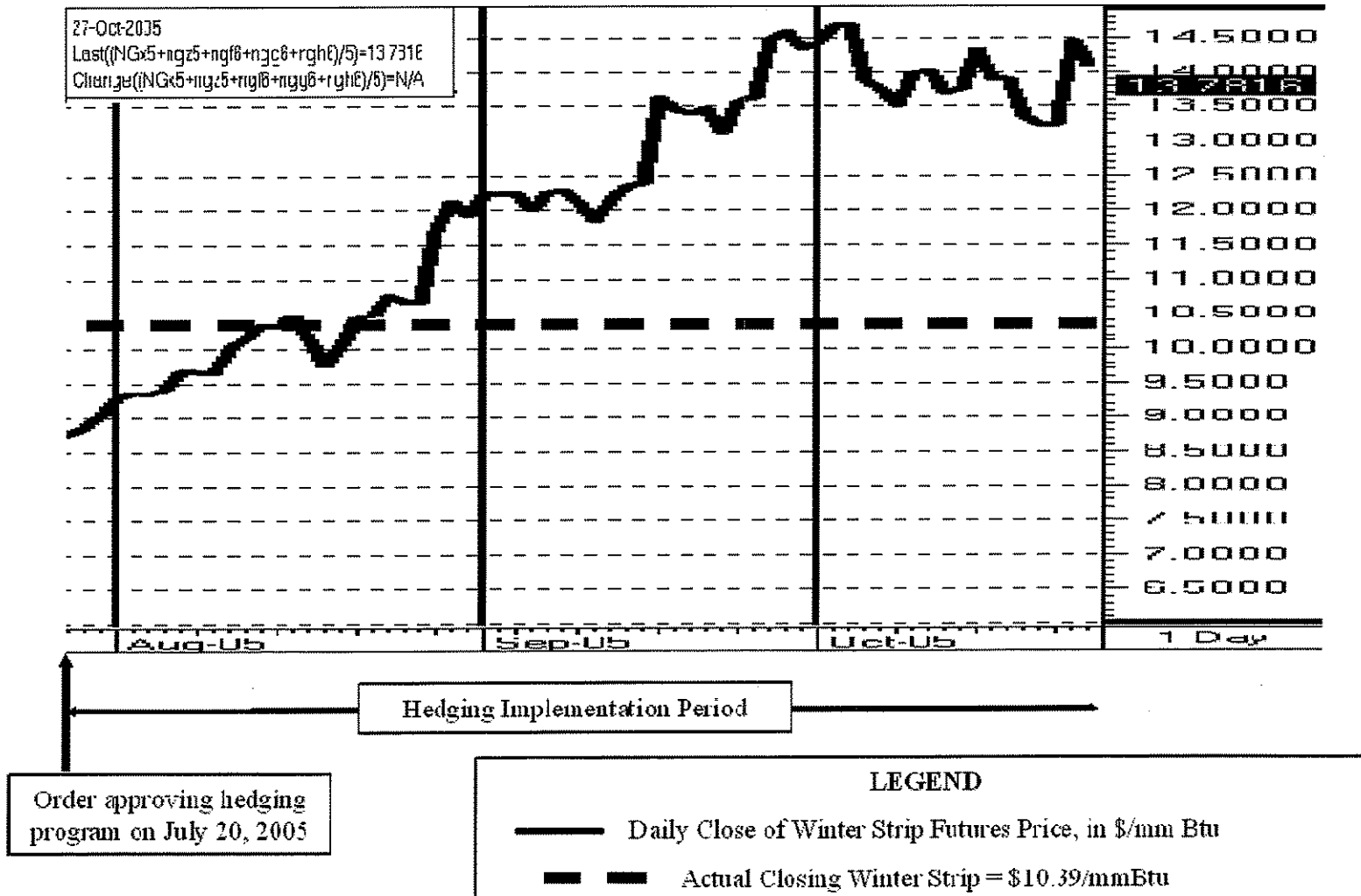
Atmos Energy, for the fifth consecutive year, proposes to purchase futures contracts and possibly call/put options in the form of "costless collars", depending on the premium. Collars allow a utility to establish a range, between a ceiling price and a floor price, for the price of gas, rather than a 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, 2006. Any compression of the implementation period increases exposure to short term extraordinary adverse 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, expedited 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 2007-2008 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 2007-2008 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.

# Exhibit A: Winter 2005-2006 NYMEX Strip (Nov 05 – Mar 06) As Of Close 10/27/2005



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