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November 29, 2006

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**PUBLIC SERVICE
COMMISSION**

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

Subject: KPSC Case No. 2006-00177
Interim Hedging Report

Dear Ms. O'Donnell:

Enclosed herein are one original and ten copies of Atmos Energy's interim hedging report for the 2006-2007 winter heating season as required by the Commission's Order dated June 16, 2006 in the above-referenced proceeding.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Gary L. Smith".

Gary L. Smith
Vice President, Marketing & Regulatory Affairs

Enclosures

Cc: Randy Hutchinson
Doug Walther

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

The Interim Report of Atmos Energy Corporation on Its) CASE NO.
Hedging Program for the 2006-2007 Heating Season) 2006-00177
)

**PETITION FOR CONFIDENTIALITY OF
SCHEDULES TO ATMOS'S INTERIM HEDGING REPORT**

Atmos Energy Corporation ("Atmos Energy"), 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 attached schedules to Atmos Energy's Interim Hedging Report for the 2006-2007 heating season.

1. On June 16, 2006 the Commission entered an Order in this proceeding approving Atmos Energy's hedging program for the 2006-2007 heating season. The Commission's Order further directed Atmos Energy to file an interim hedging report within thirty (30) days of November 1, 2006.
2. The attachments to this Petition contain sensitive pricing information and confidential information about Atmos Energy's hedging strategies. Atmos Energy's hedging strategies (including the prices Atmos Energy would likely pay for hedging contracts under various market conditions) constitutes sensitive, proprietary information which if publicly disclosed could put Atmos Energy at a commercial disadvantage in future hedging negotiations. Prospective brokers of hedging devices would gain insight into how Atmos Energy is likely to react to changing market conditions in terms of what

Atmos Energy might be willing to pay for hedging contracts. This information would not otherwise be available. Although the full extent to which Atmos Energy would be disadvantaged in future negotiations is difficult to predict, it is clear that Atmos Energy would likely be disadvantaged in future negotiations if the information contained in the attached schedules is made public.

3. Atmos Energy would not, as a matter of company policy, disclose information like that contained in the attached schedules to any person or entity, except as required by law or pursuant to a court order or subpoena. Atmos Energy's internal practices and policies are directed towards non-disclosure of the attached information. In fact, the information contained in the attached schedules is not disclosed to any personnel of Atmos Energy except those who need to know in order to discharge their responsibility. Atmos Energy has never disclosed such information publicly. This information is not customarily disclosed to the public and is generally recognized as confidential and proprietary in the industry. The Commission has historically granted Atmos Energy confidential protection to information concerning the actual price being paid by Atmos Energy to individual marketing companies and other suppliers of natural gas.

4. There is no significant interest in public disclosure of the information contained in the attached schedules. Any public interest in favor of disclosure of the information is out weighed by the competitive interest in keeping the information confidential.

5. The information contained in the attached schedules is also entitled to confidential treatment because it constitutes a trade secret under the two prong test of KRS 265.880: (a) the economic value of the information is derived by not being readily ascertainable by other persons who might obtain economic value by its disclosure and

(b) the information is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The economic value of this information is derived by Atmos Energy maintaining the confidentiality of the information since prospective brokers could obtain economic value by its disclosure.

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

7. In Atmos Energy's previous hedging cases, the Commission has granted confidential protection to the same type of information for which confidential protection is now requested.

WHEREFORE, Atmos Energy petitions the Commission to treat as confidential the attached schedules consisting of three pages and marked as "CONFIDENTIAL".

Respectfully submitted this 29th day of November, 2006.



Mark R. Hutchinson
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

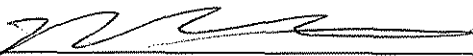
I, Gary L. Smith, being duly sworn under oath state that I am Vice President of Marketing and Regulatory Affairs for Atmos Energy Corporation, and that the statements contained in the foregoing Petition are true as I verily believe.



Gary L. Smith

CERTIFICATE OF SERVICE

I hereby certify that on the 29th day of November, 2006, the original of this Petition, with the Confidential Information for which confidential treatment is sought, together with ten (10) 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,



Mark R. Hutchinson

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

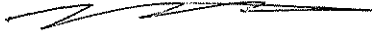
The Interim Report of Atmos Energy Corporation on Its
Hedging Program for the 2006-2007 Heating Season

)
)
) Case No.
) 2006-00177
)

**MOTION TO ACCEPT INTERM REPORT OF HEDGING PROGRAM
FOR THE 2006-2007 HEATING SEASON**

Comes now, Atmos Energy Corporation ("Atmos Energy") and pursuant to Commission's Order of June 16, 2006, files herewith its interim hedging report for the 2006-2007 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 2006-2007 heating season.

Respectfully submitted this 29th day of November, 2006.



Mark R. Hutchinson
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

CERTIFICATE OF SERVICE

I hereby certify that on the 29th day of November 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.



Mark R. Hutchinson

ATMOS ENERGY CORPORATION
KENTUCKY DIVISION
INTERIM HEDGING REPORT
CASE NO. 2006-00177

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PUBLIC SERVICE
COMMISSION

~~CONFIDENTIAL~~

The Kentucky Public Service Commission ("Commission") requested in its Order in Case No. 2006-00177 that Atmos Energy Corporation ("Company") provide the Commission with an interim hedging report within thirty days following November 1, 2006. The report follows the requirements outlined in Case No. 1997-00513 to provide "a brief narrative discussion of the factors that influenced Atmos Energy Corporation's (then known as Western Kentucky Gas) 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: and
- (4) nationwide storage levels, and Atmos Energy's own on-system storage levels, at the time of purchasing decisions."

Additionally, the Commission requested a data summary of all hedging transactions and the accounting entries for those transactions, which are attached and filed as part of this report.

Atmos Energy's Hedging Strategy

The Company's management, based upon its experiences the past six winters and 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 2006-2007 requirements, the Company would purchase financial hedging instruments to stabilize gas prices within a range of 0% up to 18% of its total requirements.
- (b) Generally, purchases would be made during the period following the Commission's June 16, 2006 Order in this Case and through the month of October 2006. 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, swap contracts and possibly options on futures or swap 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 to stabilize prices and minimize the impact of 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 an event such as price spikes”, not the lowest cost. Futures or swap contracts would allow the Company to set a fixed price to hedge the price of natural gas should prices spike this winter. The use of options contracts fixes an element of gas cost within a defined range establishing a “ceiling” and a “floor”. The combination of futures and options provides the price protection for the Company’s customers at a reasonable cost.

- (d) 100% of all benefits or costs of all hedges are flowed through directly to customers as gas costs. The Commission, in its Order in this Case, 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 the NYMEX prices for the month of January 2007 during the summer period, and the points at which the Company executed futures transactions.

Market Conditions

The NYMEX natural gas prompt month contract price peaked at its historic high level of \$15.78 on December 13, 2005. The dramatic rise was largely powered by a Gulf of Mexico supply shortage caused by Hurricanes Katrina and Rita in the fall of 2005. Contracts for prompt and near-term delivery retreated dramatically after warmer than normal weather appeared in January 2006. Warmer than normal weather continued for an unprecedented five additional months through June 2006.

In addition to its effect on prompt month prices the warm weather pattern impacted nation-wide natural gas storage inventories. The high storage levels at the start of March meant that injection season had the advantage of a significant running start. By July 1, 2006 storage had risen to 2,615 billion cubic feet (bcf), 600 bcf above the five-year average. Conversely, warm temperatures in July and August worked to reverse this trend as natural gas fueled electricity peaking plants created additional demand. By mid-October the reported storage balance was 3,442 bcf. The surplus to the five-year average had narrowed to 345 bcf.

Winter 2006-2007 season prices were not affected as dramatically as summer season prices by the strong storage picture. Market participants remained wary of a cold winter and forecasts of an active hurricane season. Spreads between summer and winter months increased to above \$4.00. Historically the summer-winter spread ranges between \$0.50 and \$1.50. In September prices began to succumb as the hurricane threat decreased. As

predicted, the Atlantic hurricane season was very active but no storms came through the Gulf of Mexico production zone.

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. 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, 2006. On Exhibit C the November 2006 delivery month totals are actual settlements. December 2006 through March 2007 are mark-to-market amounts based on the NYMEX prices for those months on October 31, 2006. Actual settlements will vary as the individual delivery months settle. Exhibit D provides the accounting entries.

The winter 2005 peak marked the end of the post-hurricane major uptrend. The Company delayed implementation between receipt of the hedging order on June 16, and September as winter prices traded in a range of

The graph on Exhibit B shows the benefit of this strategy. Hedges totaling mmBtu in NYMEX swaps were entered into

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.

EXHIBIT A
ATMOS ENERGY CORPORATION
SUMMARY OF HEDGE TRANSACTIONS
WINTER 2006-07

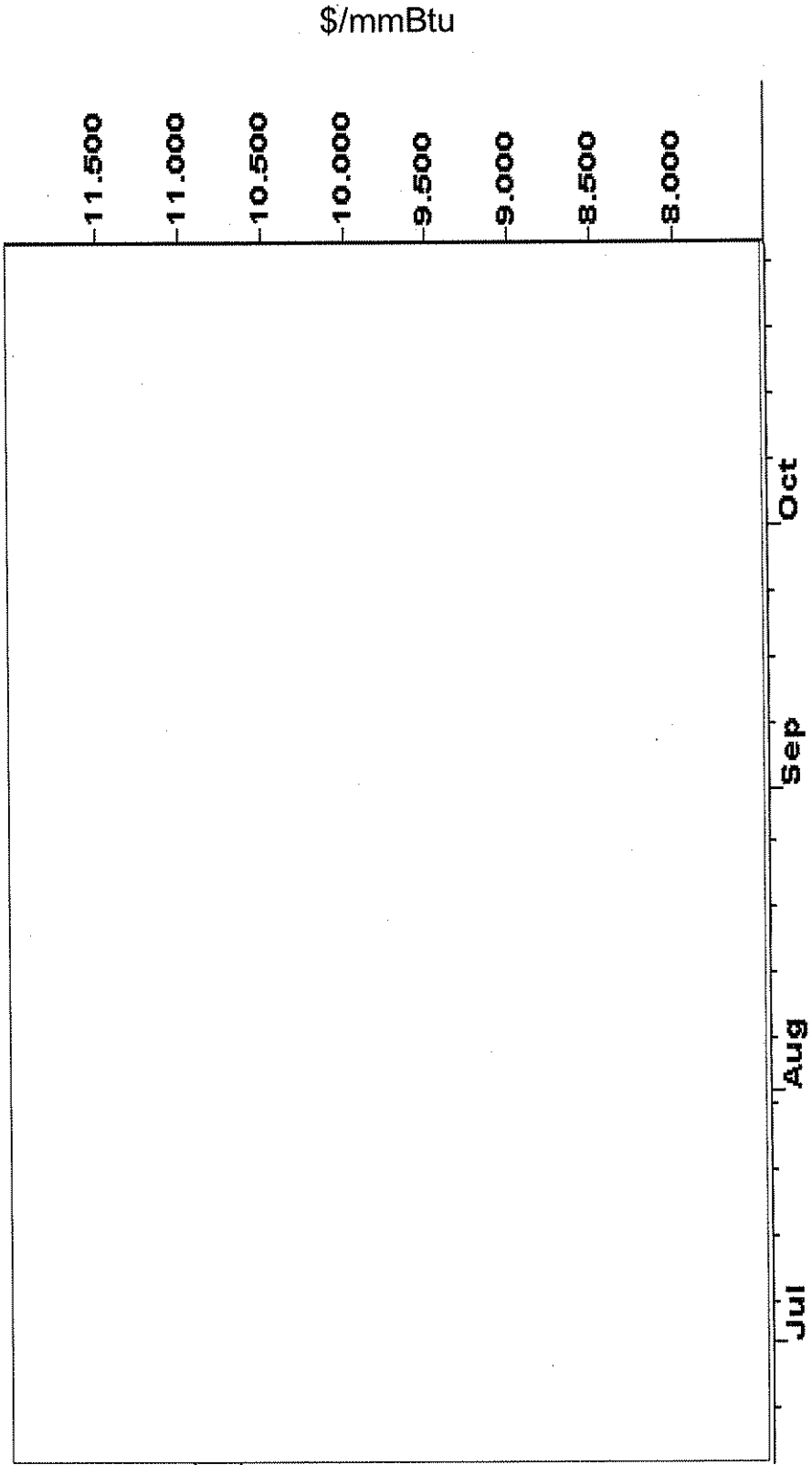
Date	Instrument	Contract Month	Future Pr	NYMEX Close Pr	Market Forecast *

* - Source: Monthly update of EIA Short-term Outlook available at the time of the transaction.

EXHIBIT B

NYMEX Natural Gas Futures

January 2007



○ Futures transactions executed under Atmos Energy Hedging program.

Atmos Energy Corporation - Hedging Report

Regulatory

Market Price Date: 10/31/2006

Transaction Date: 10/31/2006

Delivery Month is between 11/1/2006 and 3/1/2007 and Transaction Date is less than or equal to 10/31/2006 and Operating_Division equal to Kentucky

Operating Division

Kentucky

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-2006 Delivery Month Totals:

Volume	Weighted Avg.	Market Value
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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-2006 Delivery Month Totals:

Volume	Weighted Avg.	Market Value
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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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Volume Weighted Avg. Market Value

Jan-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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Volume Weighted Avg. Market Value

Feb-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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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

Volume Weighted Avg. Market Value

Mar-2007 Delivery Month Totals:

Kentucky

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

ATMOS ENERGY CORPORATION
(KENTUCKY DIVISION)
HEDGING SUMMARY, WINTER 2006-2007
MONTHLY ACCOUNTING ENTRIES

CONFIDENTIAL

Month	Account	Sub Account	Service	Description	Debits	Credits	Account Description	Sub Account Description
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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