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**PUBLIC SERVICE
COMMISSION**

**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**

COMMISSION STAFF'S DATA REQUEST

CASE NO. 2006-00177

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------------------|---|------------|
| THE FINAL REPORT OF ATMOS ENERGY |) | |
| CORPORATION ON ITS HEDGING PROGRAM |) | |
| FOR THE 2005-2006 HEATING SEASON AND |) | CASE NO. |
| MOTION TO CONDUCT A HEDGING PROGRAM |) | 2006-00177 |
| FOR THE 2006-2007 HEATING SEASON |) | |

ORDER

On May 1, 2006, Atmos Energy Corporation ("Atmos") filed its final report on its gas cost hedging program for the 2005-2006 heating season and a request to conduct a hedging program for the 2006-2007 heating season. After reviewing the application and being otherwise sufficiently advised, the Commission finds that further proceedings are required and that a procedural schedule should be established. The procedural schedule established herein may be modified or supplemented at a later date.

IT IS THEREFORE ORDERED that:

1. The procedural schedule in Appendix A to this Order shall be followed in this proceeding. Any party granted intervention subsequent to the date of this Order will be required to adhere to the dates established herein.
2. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the person responsible for responding to questions related to the information, with copies to all parties of record and 6 copies to the Commission.

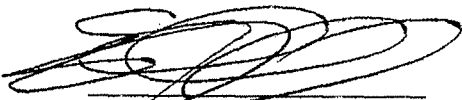
3. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

4. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this 10th day of May, 2006.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above a horizontal line.

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00177 DATED May 10, 2006

Data requests to Atmos shall be served on
all parties and filed with the Commission no later than..... 05/18/06

Atmos's responses to data requests
shall be filed no later than..... 05/26/06

Intervenors' written comments shall be filed no later than 06/05/06

Atmos's reply comments shall be filed no later than 06/13/06



Atmos Energy Corporation
Kentucky
Case No. 2006-00177
DR Item 1
Witness: Gary Smith

Data Request:

Provide a detailed description of all analyses conducted by Atmos in conjunction with its hedging decisions. Include sources of information and modeling tools used, if any.

Response:

Atmos Energy subscribes to Data Transmission Network's ProphetX service. ProphetX streams real time NYMEX quotes as well as the ability to create point and figure charts, candlestick charts and time series charts. All charts and graphs can be updated in real time during normal trading hours. ProphetX can be linked to provide real time updates to other computer applications such as Microsoft Excel. DTN also provides industry and financial news impacting the natural gas market.

Fundamental and technical analysis information is gathered from industry, governmental and counterparty sources. A partial list is presented below.

- Gas Daily
- Energy Information Administration of the Department of Energy
- Man Financial
- Prudential Financial Global Derivatives Research
- JP Morgan
- Gelber Associates
- British Petroleum
- Societe Generale
- Conoco-Phillips
- Barclays Bank
- Deutschebank

For Kentucky hedging purchases, we consider all of the above resources as we watch for the favorable market conditions consistent with Commission guidance in Case No. 2003-00192; generally, that guidance recommends avoiding purchases of hedges during declining markets and to consider purchases when the market thereafter begins to rise.



Atmos Energy Corporation
Kentucky
Case No. 2006-00177
DR Item 2
Witness: Gary Smith

Data Request:

Explain the benefits of layering in futures contracts over a longer period of time for the winter period of 2007-2008, as referenced on page 2 of Atmos' April 27, 2006 hedging report.

Response:

The primary benefit of layering in futures over a longer period of time is increased flexibility to react to market conditions. Layering in futures over a longer implementation period reduces exposure to unfavorable short term market conditions and allows more opportunity to benefit from favorable market conditions.

Atmos Energy believes that a multi-year hedging program would be beneficial in our objective to stabilize gas costs. As is evident during the brief hedge purchasing period prior to last winter, short-term futures markets can be upset by conditions such as supply disruptions due to hurricanes. Other factors that can influence the NYMEX winter strip can be demand by electric generators or the level of national storage injections for the following winter. By extending the hedge purchase period beyond just the preceding summer and fall, the Company could patiently await more favorable pricing conditions.

The Company has been considering proposing a longer implementation period coupled with multi-year hedging for a year or so. However, the gas price increases last summer have had long-lasting effects, with futures markets remaining high from a historical perspective. The generally higher market prices have delayed the Company's submittal of a longer range hedging proposal.

Atmos Energy Corporation
Kentucky
Case No. 2006-00177
DR Item 3
Witness: Gary Smith

Data Request:

Explain whether Atmos considered requesting that its hedging program be approved on a permanent basis. If yes, explain why Atmos did not make the request.

Response:

Atmos Energy did not consider requesting that its hedging program be approved on a permanent basis prior to this filing. However, given that the Company has not altered its proposed hedging program for the past four years, such a proposal certainly merits consideration.

The Company would certainly be open to a permanent hedging program; particularly if we file a multi-year hedging plan for Commission consideration and approval (reference the Company's response to Item 2 of this data request).



Atmos Energy Corporation
Kentucky
Case No. 2006-00177
DR Item 4
Witness: Gary Smith

Data Request:

Provide the natural gas volumes supplied (1) from storage and (2) from flowing gas during the 2005-2006 winter heating season.

Response:

Please refer to the attached schedule detailing storage withdrawals and market purchases during the 2005-2006 winter season. Storage supplied 69% of total winter sales requirements.

**Atmos Energy Corporation
Kentucky Operations
Case No. 2006-00177
KPSC Data Request dated May 18, 2006 - Item #4**

| <u>Line No.</u> | (A) | (B) | (C) | (D) | (E) | (F) | (G) |
|-----------------|------------------------|---------------|---------------|---------------|---------------|---------------|---------------------------|
| | | <u>Nov-05</u> | <u>Dec-05</u> | <u>Jan-06</u> | <u>Feb-06</u> | <u>Mar-06</u> | <u>Winter 2005-06</u> |
| 1 | | | | | | | |
| 2 | Texas Gas Areas | | | | | | |
| 3 | Market Purchases | 225,481 | 1,122,221 | 1,116,995 | 404,465 | 201,453 | 3,070,615 |
| 4 | TGT Storage | 1,444,693 | 901,765 | 150,405 | 1,132,809 | 936,184 | 4,565,856 |
| 5 | CO Storage | (201,728) | 1,655,319 | 1,195,236 | 1,250,508 | 676,562 | 4,575,897 |
| 6 | Total TGT Areas | 1,468,446 | 3,679,305 | 2,462,636 | 2,787,782 | 1,814,199 | 12,212,368 |
| 7 | | | | | | | |
| 8 | Tennessee Gas Areas | | | | | | |
| 9 | Gas Sales | 116,188 | 298,533 | 408,861 | - | 146,023 | 969,605 |
| 10 | Storage | 167,752 | 250,807 | (293) | 433,829 | 175,415 | 1,027,510 |
| 11 | Total TGP Areas | 283,940 | 549,340 | 408,568 | 433,829 | 321,438 | 1,997,115 |
| 12 | | | | | | | |
| 13 | Trunkline - Market | 89,756 | 154,395 | 154,516 | 111,732 | 77,004 | 587,403 |
| 14 | | | | | | | |
| 15 | Total KY Supply | 1,842,142 | 4,383,040 | 3,025,720 | 3,333,343 | 2,212,641 | 14,796,886 |
| 16 | | | | | | | |
| 17 | Total Market Purchases | 431,425 | 1,575,149 | 1,680,372 | 516,197 | 424,480 | 4,627,623 |
| 18 | Total Storage | 1,410,717 | 2,807,891 | 1,345,348 | 2,817,146 | 1,788,161 | 10,169,263 |
| 19 | Total KY Supply | 1,842,142 | 4,383,040 | 3,025,720 | 3,333,343 | 2,212,641 | 14,796,886 |

20

21 All volumes stated in mmBtu.

22 The Company netted injections during November 2005 for Company owned storage.

23 The Company netted injections during January 2006 on TGP due to the warm weather.



Atmos Energy Corporation
Kentucky
Case No. 2006-00177
DR Item 5
Witness: Gary Smith

Data Request:

Describe in detail Atmos' access to storage gas, both on-system and off-system.

Response:

Attached please find a description of the Company's access to on-system and off-system storage. Exhibit A describes the limitations of daily injections and withdrawals, and the seasonal capacity for storage service (No-notice Service) from Texas Gas. Exhibit B details access to storage through our contractual arrangements with Tennessee Gas. Exhibit C summarizes the operational parameters of storage service from the East Diamond storage field in accordance with the Company's service from WKG Storage, Inc. And, finally, in Exhibit D, we outline the operational parameters for the Company's five on-system storage fields. Please note that Atmos Energy's on-system storage accesses only limited markets within the Texas Gas Zone 3 area. Similarly, gas storage withdrawals from East Diamond also supply only limited markets within the Texas Gas Zone 3 area.

Texas Gas Contracts
NNS Storage Summary

| | Max Storage Quantity | Max Daily Withdrawal Quantity |
|--------|-------------------------|-------------------------------------|
| Zone 2 | 1,365,000 | 19,050 |
| Zone 3 | 2,100,000 | 16,283 |
| Zone | 376,150 | 5,727 |
| Total | 3,841,150 | 41,060 |

Maximum Daily Injection Quantity

| % of Unnominated Seasonal Quantity Injected | Max Available Injection Rate (% of USQ) | Quantity |
|---|---|----------|
| 0% - 65% | 1.30% | 49,935 |
| 65% - 90% | 1.10% | 42,253 |
| >90% | 0.60% | 23,047 |

Gas must be nominated on a NNS contract to be injected into pipeline NNS storage contract.

Adjusted Unnominated Daily Quantity

| % USQ Withdrawn | %UDQ Available | Quantity Available |
|--------------------|-------------------|-----------------------|
| 75% | 90% | 36,954 |
| 80% | 85% | 34,901 |
| 85% | 80% | 32,848 |
| 90% | 75% | 30,795 |

Summer withdrawals – no more than 10% of the winter max withdrawal rate and limited to 5 consecutive days on a best efforts basis.

Texas Gas NNS Contracts

| | <u>Nov-Mar</u> | <u>April</u> | <u>May-Sept</u> | <u>October</u> |
|---|----------------|--------------|-----------------|----------------|
| <i>Contract #N-0210, deliveries to zone 2</i> | | | | |
| Daily Contract Demand | 45,500 | 36,367 | 22,292 | 40,177 |
| Nominated Quantity | 26,450 | 22,292 | 22,292 | 22,292 |
| Unnominated Quantity | 19,050 | 9,525 | -0- | 13,335 |
| 10% cushion – 4,550 Dth | | | | |
| <i>Contract #N-0340, deliveries to zone 3</i> | | | | |
| Daily Contract Demand | 81,000 | 81,000 | 67,375 | 81,000 |
| Nominated Quantity | 64,717 | 67,375 | 67,375 | 67,375 |
| Unnominated Quantity | 16,283 | 8,142 | -0- | 11,398 |
| 10% cushion – 8,100 Dth | | | | |
| <i>Contract #N-0435, deliveries to zone 4</i> | | | | |
| Daily Contract Demand | 13,500 | 8,838 | 4,625 | 9,984 |
| Nominated Quantity | 7,773 | 4,625 | 4,625 | 4,635 |
| Unnominated Quantity | 5,727 | 2,864 | -0- | 4,009 |
| 10% cushion – 1,350 Dth | | | | |

Texas Gas FT Contracts

| | | | | |
|---|--------|--------|--------|--------|
| <i>Contract #T-3355, deliveries to zone 3</i> | | | | |
| Daily Contract Demand | 15,000 | 15,000 | 15,000 | 15,000 |
| <i>Contract #T-3819, deliveries to zone 4</i> | | | | |
| Daily Contract Demand | 3,500 | 3,500 | 3,500 | 3,500 |

Tennessee Gas Pipeline Contracts

- Deliveries include FT-G and FT-GS
- All deliveries are located in TGP, zone 2
- All contracts have NNS deliverability
- The MDQ's associated with the FT-G contracts sculpture down during the summer months
- Can release the FT-G capacity, but not the FT-GS

Tennessee Gas Storage (Dth)

| | Production Area #2384 | Market | | Total |
|------------|--------------------------|------------|-------------|-----------|
| | | Area #2383 | Area #41703 | |
| MSQ | 409,679 | 753,859 | 150,000 | 1,313,538 |
| Withdrawal | 2,914 | 16,619 | 3,165 | 22,698 |
| Injection | 2,731 | 5,062 | 964 | 8,757 |

Tennessee Gas Pipeline FT-G Contracts

MDQ's in Dth

| | Nov-Mar | Apr | May | Jun | Jul | Aug | Sep | Oct |
|---|---------------|---------------|--------------|--------------|--------------|--------------|--------------|---------------|
| <i>Contract #2546, deliveries to Danville</i> | | | | | | | | |
| Mainline | 8,402 | 4,402 | 4,364 | 4,800 | 4,553 | 4,400 | 4,233 | 4,615 |
| Storage | <u>6,598</u> | <u>6,598</u> | <u>3,636</u> | <u>1,200</u> | <u>947</u> | <u>1,100</u> | <u>1,767</u> | <u>5,385</u> |
| Total MDQ | 15,000 | 11,000 | 8,000 | 6,000 | 5,500 | 5,500 | 6,000 | 10,000 |
| <i>Contract #2548, deliveries to Lebanon</i> | | | | | | | | |
| Mainline | 2,557 | 2,285 | 1,365 | 1,600 | 1,655 | 1,600 | 1,765 | 1,846 |
| Storage | <u>3,215</u> | <u>3,215</u> | <u>1,135</u> | <u>400</u> | <u>345</u> | <u>400</u> | <u>735</u> | <u>2,154</u> |
| Total MDQ | 5,772 | 5,500 | 2,500 | 2,000 | 2,000 | 2,000 | 2,500 | 4,000 |
| <i>Contract #2550, deliveries to Campbellsville</i> | | | | | | | | |
| Mainline | 2,831 | 2,347 | 2,727 | 2,800 | 2,831 | 2,800 | 2,831 | 2,308 |
| Storage | <u>4,025</u> | <u>3,853</u> | <u>2,273</u> | <u>700</u> | <u>669</u> | <u>700</u> | <u>1,669</u> | <u>2,692</u> |
| Total MDQ | 6,856 | 6,200 | 5,000 | 3,500 | 3,500 | 3,500 | 4,500 | 5,000 |
| <i>Contract #2551, deliveries to Harrodsburg</i> | | | | | | | | |
| Mainline | 2,740 | 2,139 | 1,636 | 1,600 | 1,655 | 1,600 | 1,412 | 1,639 |
| Storage | <u>2,861</u> | <u>2,861</u> | <u>1,364</u> | <u>400</u> | <u>345</u> | <u>400</u> | <u>1,588</u> | <u>2,861</u> |
| Total MDQ | 5,601 | 5,000 | 3,000 | 2,000 | 2,000 | 2,000 | 3,000 | 4,500 |
| <i>Total FT-G MDQ</i> | | | | | | | | |
| Mainline | 16,530 | 11,173 | 10,092 | 10,800 | 10,694 | 10,400 | 10,241 | 10,408 |
| Storage | <u>16,699</u> | <u>16,527</u> | <u>8,408</u> | <u>2,700</u> | <u>2,306</u> | <u>2,600</u> | <u>5,759</u> | <u>13,092</u> |
| Total MDQ | 33,229 | 27,700 | 18,500 | 13,500 | 13,000 | 13,000 | 16,000 | 23,500 |

Tennessee Gas Pipeline FT-GS Contract

MDQ's in Dth

| | | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <i>Contract #2385, deliveries to all GS towns</i> | | | | | | | | |
| Mainline | 2,283 | 2,283 | 2,283 | 2,283 | 2,283 | 2,283 | 2,283 | 2,283 |
| Storage | <u>5,999</u> | <u>5,999</u> | <u>5,999</u> | <u>5,999</u> | <u>5,999</u> | <u>5,999</u> | <u>5,999</u> | <u>5,999</u> |
| Total MDQ | 8,282 | 8,282 | 8,282 | 8,282 | 8,282 | 8,282 | 8,282 | 8,282 |

Total All Tennessee Gas Capacity

| | | | | | | | | |
|-----------|---------------|---------------|---------------|--------------|--------------|--------------|---------------|---------------|
| Mainline | 18,813 | 13,456 | 12,375 | 13,083 | 12,977 | 12,683 | 12,524 | 12,691 |
| Storage | <u>22,698</u> | <u>22,526</u> | <u>14,407</u> | <u>8,699</u> | <u>8,305</u> | <u>8,599</u> | <u>11,758</u> | <u>19,091</u> |
| Total MDQ | 41,511 | 35,982 | 26,782 | 21,782 | 21,282 | 21,282 | 24,282 | 31,782 |

East Diamond Storage Field Contractual/Operational Parameters

Contractual Parameters

- Atmos Energy Corporation leases 1,750,000 Mcf of space from WKG Storage, Inc. The current contract for this service is in effect until at least June 1, 2007. The Company does not anticipate any termination of this service, but needs to acknowledge that there is a possibility of termination in the future.

Operational Parameters

- Cycle full working gas capacity
- Injection rate of 20,000 mcf/day when empty, tapering down as field is filled. Average injection rate is 10,000 mcf/day
- Working Gas Capacity = 1,750,000 Mcf
- Withdrawal: Max = 30,000 Mcf for short term peaks
 - 20,000 MCFD when the storage level is between 1,750,000 Mcf and 750,000 Mcf
 - When the storage level is between 750,000 Mcf and 0 Mcf, the deliverability is equal to the storage level multiplied by 0.0267
 - For example, if the storage level is 250,000, then the deliverability would be 6,675 MCFD

ATMOS ENERGY – KENTUCKY STORAGE FIELD
OPERATIONAL PARAMETERS

BON HARBOR

- Cycle full working gas capacity
- Water Drive Reservoir
- Inject early in the season after withdrawal. Keep the field online as much as possible.
Do not allow field to sit stagnant for long periods of time. Prefer one (1) month maximum shut-in time.
- Working gas capacity = 778,000 MCF
- Injection: Max = 12,000 MCFD, Min = 5,000 MCFD
- Withdrawal: Max = 20,000 MCFD, Min = 7,000 MCFD

GRANDVIEW

- Cycle full working gas capacity
- Inject early in the season for a couple of days if possible to dry out wellbores. No other restrictions.
- Working Gas Capacity = 305,000 MCF
- Injection: Max = 3,600 MCFD, Min = 1,000 MCFD
- Withdrawal: Max = 4,000 MCFD, Low End = 2,000 MCFD, 30 Day avg. = 3,000 MCFD. Gas is compressed out when the field pressure and flow rate drop off.

HICKORY

- Cycle full working gas capacity
- Inject early in the season for a couple of days if possible to dry out wellbores. No other restrictions.
- Working Gas Capacity = 450,000 MCF
- Injection: Max = 15,000 MCFD, Min = not applicable, gas is free flowed in.
- Withdrawal: Max = 18,000 MCFD, Low End = 6,000 MCFD, 30 Day avg. = 8,000 MCFD

KIRKWOOD

- Cycle full working gas capacity
- Inject early in the season for a couple of days if possible to dry out wellbores. No other restrictions.
- Working Gas Capacity = 200,000 MCF

KIRKWOOD (Continued)

- Injection: Max = 5,000 MCFD, Min = 4,000 MCFD with compressor, not applicable when free flowing gas from ANR.
- Withdrawal: Max = 10,000 MCFD, Low End = 3,000 MCFD, 30 Day avg. = 5,000 MCFD

ST. CHARLES

- Cycle full working gas capacity
- No injections restrictions
- Working Gas Capacity = 2,600,000 MCF
- Injection: Max = 18,000 MCFD, Min = 12,000 MCFD
- Withdrawal: Max = 40,000 MCFD, Low End = 15,000 MCFD, 30 Day avg. = 27,000 MCFD. Gas can be compressed out towards the low end at a rate of about 19,000 MCFD.

TOTALS:

| | | | |
|------------------------|-----------|-------------|-------------------|
| Max. Daily Withdrawal | 92,000 | MCFD | |
| Withdrawal 30 Day Avg. | 53,000 | MCFD | |
| Withdrawal @ Low End | 33,000 | MCFD | |
| Working Gas Capacity | 4,333,000 | MCFD | |
| Max. Daily Injection | 53,600 | MCFD | when free flowing |
| Min. Daily Injection | N/A | MCFD | when compressing |