ATMOS energy

December 1, 2008

Ms. Stephanie Stumbo, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

Subject: KPSC Case No. 2007-00551
Interim Hedge Report

Dear Ms. Stumbo:

Atmos Energy Corporation (Company) herewith submits an original non re-dacted and ten (10) re-dacted copies of the interim hedge report pursuant to the Ordering Paragraph 4 of the Commission's Order dated April 8, 2008 in the above referenced proceeding. Exhibits A-D are CONFIDENTIAL and will be filed with a petition of confidentiality.

Please contact either myself at 270.685.8024 or Len Matheny at 270.685.8062 if the Commission or Staff has any questions regarding the enclosed report.

Sincerely,

Mark A. Martin

Mark A. Martin
Vice President, Rates & Regulatory Affairs

Enclosures

cc: Randy Hutchinson
Doug Walther
Alan Chambers

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ATMOS ENERGY CORPORATION
KENTUCKY DIVISION
INTERIM HEDGING REPORT
~~CASE NO. 2007-00551~~

The Kentucky Public Service Commission ("Commission") requested in its Order in Case No. 2007-00551 that Atmos Energy Corporation ("Atmos Energy or the "Company") provide the Commission with an interim hedging report as required by the Commission in its approvals of Atmos' previous hedging programs. Prior interim reports were filed prior to December 1st of each year. The report is to follow the requirements outlined in Case No. 1997-00513 to provide "a brief narrative discussion of the factors that influenced Western's (Now Atmos Energy Corporation's) 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;
(4) nationwide storage levels, and Western's own on-system storage levels, at the time of purchasing decisions;
(5) data summary of all hedging transactions; and
(6) hedge transactions accounting entries

<u>Atmos Energy's Hedging Strategy</u>

The Company's management, based upon its experiences the past seven winters and upon 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 2008-2009 requirements, the Company would purchase financial hedging instruments to stabilize gas prices within a range of 0% up to 8% of its expected total requirements.
(b) Generally, purchases would be made during the period following the Commission's April 8, 2008 Order in this Case and the month of October 2008. This would allow the Company to weight the price across the projected purchase period. Following the Commission's guidance, and following advice from a consultant, Gelber and Associates, the Company would adjust the timing and volumes of hedge instrument purchases. The Company would purchase futures contracts and possibly options on futures 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 caused by 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 events such as price spikes", not the lowest cost. Futures or swap contracts would allow the Company to set a fixed price which would hedge the price of natural gas should prices spike this winter. The possible use of options contracts would fix an element of gas cost within a defined upper and lower range. The combined effect of the options contracts would be protection of prices above an established fixed price ceiling and reduction of a portion of downward price movements relative to straight swap or futures contracts. The combination of futures, swaps and options would provide the price protection for its customers which the Company was seeking at a reasonable cost.

(d) 100% of all benefits or costs of any hedges would flow through directly to customers as gas costs. The Commission, in its Order in Case 2004-00142, 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 swaps transactions following uptick in prices. Exhibit B provides a graphic summary of NYMEX unweighted prices for the November 2008 through March 2009 winter strip during the summer implementation period. The points at which the Company executed futures transactions are also displayed.

Market Conditions

The chart in Exhibit B shows a trend of generally rising prices through early July followed by steeply declining prices for the remainder of the implementation period. The higher spring and early summer prices were driven by forecasts of an active hurricane season and warmer than normal summer temperatures. Investment flows into commodities as a hedge against the falling dollar and U.S. stock markets provided further upward pressure on prices. Price declines materialized nationwide as the forecasted extensive period of summer heat, was more subdued than anticipated, especially in the populous Northeast markets. A confluence of factors turned price momentum downward in July. The Federal Reserve acted to support the dollar. The financial crisis caused some long liquidation by financial investors to strengthen balance sheets. Surprisingly large production increases loosened the supply/demand picture. By the end of storage season natural gas storage inventories of over 3.4 Tcf (trillion cubic feet) threatened the historic record of 3.54 Tcf set the previous year.

summarized on Exhibit A and details are provided in Exhibit C. 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, 2008. On Exhibit C the November 2008 delivery month totals are actual settlements. December 2008 through March 2009 are mark-to-market amounts based on the NYMEX prices for those months on October 31, 2008. Actual settlements will vary as the individual delivery months settle. Exhibit D provides the accounting entries.

Impact of Atmos Energy Storage

The Company develops seasonal summer and winter supply plans which set its storage injection and withdrawal levels. Historically, 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.

CASE NO. 2007-551 EXHIBIT A
ATMOS ENERGY CORPORATION
SUMMARY OF HEDGE TRANSACTIONS
WINTER 2008-09

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Date	Instrument	Contract Month	Future Trans Price	NYMEX Close Price	Unweighted Mkt Forecast *

CONFIDENTIAL Exhibit B Case 2007-551
June 2008 – October 2008 Implementation Period
Kentucky

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Atmos Energy Corporation - Hedging Report

Regulatory Contract

Market Price Date: 10/31/2008

Transaction Date: 10/31/2008

Delivery Month is between 11/1/2008 and 3/1/2009 and Transaction Date is less than or equal to 10/31/2008 and Rate Division is equal to Kentucky-09

Rate Division: Kentucky-09

CONFIDENTIAL

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-2008 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

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

	Volume	Weighted Avg.	Market Price	Market Value
Dec-2008 Delivery Month Totals:	190,000	$10.0077	$6.7830	($612,700)

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

CONFIDENTIAL

Jan-2009 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

Feb-2009 Delivery Month Totals:

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

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

Mar-2009 Delivery Month Totals:

Kentucky-09

Futures Totals

Rate Division Totals

Report Totals

Futures Totals

Report Totals

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Exhibit D

ATMOS ENERGY - KENTUCKY DIVISION (formerly "Western Kentucky Gas")
HEDGING SUMMARY, WINTER 2008-10
MONTHLY ACCOUNTING ENTRIES
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Month	Source	Category	JE Name	Company	:ost Cente	Account	Sub Account	Service	Future	Debits	Credits	Net

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