ATMOS energy

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PUBLIC SERVICE COMMISSION

April 29, 2009

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

Subject: KPSC Case No. 2007-00551
2008-2009 Final Hedge Report

Dear Mr. Derouen:

Atmos Energy Corporation (Company) herewith submits an original non re-dacted and ten (10) re-dacted copies of the final hedge report pursuant to the Ordering Paragraph 4 of the Commission's Order dated April 8, 2008 in the above referenced proceeding. Exhibits A-C 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
Larry Cook

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ATMOS ENERGY – Kentucky Division
FINAL HEDGING REPORT: WINTER 2008-2009
April 29, 2009

The Kentucky Public Service Commission ("Commission") in its Order in Case No. 2007-00551, dated April 8, 2008, found that:

1. Atmos's report on its natural gas hedging activities for the 2007-2008 heating season is accepted.
2. Atmos's request to hedge year round for multiple winters is approved.
3. The hedging program is extended for 5 years, through March 31, 2013.
4. Atmos shall file interim and final reports as required by the Commission in its approvals of Atmos's previous hedging programs.
5. In order to continue its hedging program beyond March 31, 2013, Atmos shall apply for such continuation by no later than September 30, 2012

The final hedging report is to be provided within 30 days of the March 31, 2009 end of the heating season. The report is to "identify any gas cost 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". Additionally, the Commission requested a data summary of all hedging transactions. The purpose of this report is to provide the requested information pertaining to the 2008-2009 heating season.

Market Conditions

Please refer to Exhibit A "Winter 2008-2009 NYMEX Strip" for a chart showing the winter month futures pricing from April 2008 to October 2008. Exhibit A includes the July 2008 through October 2008 Kentucky implementation period.

In spring and early summer 2008 the natural gas market was concerned about supply tightness and the weakening dollar. Unexpected February and March 2008 cold snaps led to seasonally strong withdrawals. The natural gas market was apprehensive about its ability to inject adequate amounts of storage gas before winter 2008-2009 began. Additional upward pressure developed as investors moved money out of equities and into commodities to hedge against the declining stock market. Around July 4th, the market broke sharply downward as participants shifted to concern about supply-demand weakness. Information on increased unconventional gas supplies indicated robust production. At the same time the global economy accelerated its decline reducing industrial and power generation demand. The winter 2008-2009 months settled between $4.06 and $6.88. Although the Atmos Kentucky hedging program allows multi-year hedging, no volumes were implemented for the 2009-2010 winter based on guidance from a consultant.

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Please refer to Exhibit B for details of hedging implementation and the results for winter season 2008-2009. Because of declining prices during winter 2008-2009 each delivery month experienced a cost. Exhibit B shows that 940,000 MMBtu were hedged at a weighted average price of $9.959 Total costs amounted to $4,010,085. Atmos Energy believes the program was successful in stabilizing gas costs for its customers and believes programs put in place in the future continue to hold value for our customers. As stated in the Commission's Order in Case No. 2003-00192 "achieving price stability, not (necessarily) the lowest possible cost, is the (primary) goal of a hedging program."

<u>Atmos Energy's Hedging program Contract Monthly Changes, Settlements, and Accounting Entries</u>

Please Review the attached Exhibit C for the accounting entries related to the program.

<u>Atmos Energy's Hedging Program Proposed for winter 2009-2010 and winter 2010-2011</u>

Atmos Energy's proposal for the 2009-2010 and 2010-2011 seasons 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 each winter. Of the remaining winter requirements, up to 50% of the gas purchases will be financially hedged (or 15% 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. No minimum or "floor" percentage of hedge volumes is proposed. Atmos may also respond to market condition changes by entering into financial hedging arrangements for the 2009-2010 winter season.

Atmos Energy, for the eighth 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). Atmos Energy's financial hedges for the upcoming winter (up to 50% of expected volumes) and for the following winter (up to 25% of expected volumes) will be executed during the period between April 1, 2009 and October 31, 2009.

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 will be filed within 30 days of the November 1, 2009 start of the upcoming heating season and the final report filed within 30 days of the March 31, 2010 end of the heating season.

REDACTED

Exhibit A: NYMEX November 2008 – March 2009 Winter Strip

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Exhibit B: Details of Winter Hedging Implementation and Results for 2008 - 2009

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Exhibit C: Hedging Summary Monthly Accounting Entries