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May 30, 2008

Ms. Stephanie Stumbo  
Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd.  
PO Box 615  
Frankfort, Kentucky 40602

**RE: Case No. 2007-00551 (Case No. 2006-00177)**

Dear Ms Stumbo:

By its Order in this proceeding of April 8, 2008, the Commission approved Atmos' proposal to engage in year round hedging for multiple winter periods. On page two of that Order, the Commission stated: "If approved as proposed, Atmos would experience a transition period for the 2008-2009 and 2009-2010 heating seasons in that it would implement its hedges from April 2008 to October 2008 for the 2008-2009 season and from April 2008 to October 2009 for the 2009-2010 heating season". The Commission's Order did not establish any minimum, or floor, for Atmos' hedged purchase volumes.

Due to the current, historic high natural gas prices which are not the result of major supply disruption due to hurricanes or cold weather, Atmos (Company) is not presently purchasing financial hedges for the 2009-2010 heating season. The Company does not believe it is prudent to acquire hedged volumes for the 2009-2010 heating season with current natural gas prices trading at historical highs in the commodities market.

The Company believes that given the current high prices, there is unprecedented exposure to potential declining winter season prices. The 2009-2010 winter strip has traded at \$11.52. The six-year average winter settlement ending with the 2007-2008 heating season is \$7.50. The Company believes that due to these unprecedented levels, a more cautious methodology needs to be employed where flexibility is allowed. In the event that prices moderate, the Company will re-examine market conditions and may begin entering hedge transactions for the 2009-2010 heating season. The Company will continue to use the Commission's guidance in making all current and future hedge purchases.

We also want to advise the Commission that the Company is contemplating contracting with the Gelber Corporation (Gelber) to advise and assist the Company in future hedge implementation strategies. The Company's relationship with Gelber first started in Louisiana in 2004. Gelber was selected through an RFP process in Louisiana. The hedging program in Louisiana has an associated sharing mechanism and it was determined that input from a third party was necessary to enable the program to become successful. Although the Company has excellent in-house hedging expertise, given the rapidly changing natural gas market, coupled with an ever changing national and international economy, we believe that outside expertise is warranted. No final decision has been made to engage Gelber, but the Company did want to make the Commission aware of the situation.

It is not the Company's intention to place this consulting work "out for bid". The Company has developed an excellent working relationship with Gelber over the last four years and Gelber already knows the Company's policies and procedures. The Company believes that Gelber is the best suited to work with us on our hedging strategies. This is not a matter of outsourcing all hedging functions to a third party; rather, the Company will be contracting with Gelber for consulting purposes only.

If the Commission needs any further information or if we need to take any other formal action with the Commission regarding the above referenced matters, please advise and we will promptly do so.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mark A. Martin". The signature is fluid and cursive, with a horizontal line extending from the end.

Mark A. Martin  
Vice President – Rates & Regulatory Affairs

pc: Larry Cook  
Anita Mitchell  
Randy Hutchinson  
Alan Chambers