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 2003-2004 HEATING SEASON AND MOTION TO CONDUCT A HEDGING PROGRAM FOR THE 2004-2005 HEATING SEASON	)	CASE NO. 2004-00142

O R D E R

On April 20, 2004, Atmos Energy Corporation ("Atmos") filed its final report on its 2003-2004 natural gas hedging plan and a request for approval of a natural gas hedging plan for the 2004-2005 winter heating season.[1] The final report reflects the volumes Atmos purchased for the 2003-2004 heating season using various hedging instruments, the costs incurred, and the gas cost savings realized thereunder. Atmos requests that the Commission accept the final hedging report of its 2003-2004 hedging program.

The proposed hedging plan will consist of futures contracts and possibly no-cost collars, which are the same hedging instruments used by Atmos to acquire a portion of its natural gas supply for the past three heating seasons. The proposed plan will follow the same general parameters that have governed Atmos's past hedging activities.

Atmos also proposes to continue to file with the Commission reports on its hedging plan. Atmos indicates that it will file the reports in accordance with previously established reporting schedules.

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[1] Atmos conducted gas supply hedging plans for the 2001-2002, 2002-2003, and 2003-2004 winter heating seasons with Commission approval.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), was granted intervention. He filed comments on Atmos's hedging proposal and Atmos filed reply comments thereto. Although they were afforded an opportunity to request a hearing, neither party made such a request.

BACKGROUND

In Administrative Case No. 384, the Commission directed Kentucky's major gas distribution utilities to consider hedging options in response to the significant price spikes and unprecedented volatility in gas prices experienced during the 2000-2001 heating season.[2] As an outgrowth of that case, we engaged The Liberty Consulting Group ("Liberty") to conduct a focused management audit of the gas procurement practices of those major gas utilities. Atmos, in response to our directive, proposed a hedging plan for the 2001-2002 heating season and followed that with similar hedging plans for the 2002-2003 and 2003-2004 heating seasons. Subject to some minor modifications, the Commission approved Atmos's previous gas hedging plans.

Atmos proposes a plan identical to that approved for the last heating season. Under the proposal, Atmos will hedge roughly 50 percent of its winter season supply through storage. It will hedge up to 25 percent of its winter season supply financially via futures contracts or futures and call/put options in the form of no cost collars.

POSITIONS

Although Atmos proposes to financially hedge up to 25 percent of its total winter season gas supply requirements, it proposes no minimum percentage to be hedged.

[2] Administrative Case No. 384, An Investigation of Increasing Wholesale Natural Gas Prices and the Impacts of Such Increases on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Distribution Companies, Order dated January 30, 2001.

Atmos proposes to enter into its hedging arrangements in response to changes in market conditions by layering in positions over the course of the summer and fall, which is the approach approved by the Commission for Atmos's 2003-2004 hedging plan.

The AG, as in prior Atmos hedging cases, argues that a hedging program should not be implemented while Atmos is operating under a gas cost performance-based rate-making mechanism ("PBR") unless a cost-benefit analysis is performed showing that customers will not be paying more under both programs than they would in the absence thereof. The AG also recommends, as in prior Atmos hedging cases, that, if a hedging program is approved, a portion of the cost of the program be assigned to Atmos.

DISCUSSION AND CONCLUSION

While the Commission appreciates the positions of both Atmos and the AG, we find that Atmos's plan should be approved as filed. The AG's comments expressing his concerns with having a hedging program in place to stabilize prices while a PBR, which encourages least-cost purchasing, is also in place, are not persuasive. As stated in our July 22, 2003 Order in Atmos's previous hedging case, we remain convinced that a hedging program and a PBR can coexist.[3]

The Commission is also not convinced that Atmos should be made to bear a portion of the cost of the hedging program. As stated in prior cases, the impetus for hedging is to provide insurance against an event such as price spikes, the cost of which would likely be borne by customers since Atmos does not control the market that gives rise to such an event. Since it is customers, not the utility or its shareholders, who

[3] Case No. 2003-00192, Petition of Atmos Energy Corporation for Approval to Conduct Hedging Program for the Winter of 2003-2004.

stand to receive the benefits realized through a hedging program, we continue to find that customers should bear the cost of such a program.

SUMMARY

1. Atmos's report on its 2003-2004 hedging plan should be accepted.

2. Atmos's proposed 2004-2005 hedging plan should be approved as filed.

3. Atmos should file both an interim and a final report on its hedging plan with the interim report to be filed within 30 days of the November 1, 2004 start of the upcoming heating season and the final report filed within 30 days of the March 31, 2005 end of the upcoming heating season.

IT IS THEREFORE ORDERED that:

1. Atmos's report on its 2003-2004 hedging plan is accepted as filed.

2. Atmos's natural gas hedging plan for the 2004-2005 heating season is approved effective with the date of this Order.

3. Atmos shall file interim and final reports on its natural gas hedging plan as set forth in Finding No. 3 of this Order.

Done at Frankfort, Kentucky, this 20th day of July, 2004.

By the Commission

ATTEST:

Executive Director