

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 ) CASE NO. 2006-00177  
SEASON AND MOTION TO CONDUCT A )  
HEDGING PROGRAM FOR THE 2006-2007 )  
HEATING SEASON )

O R D E R

On May 1, 2006, Atmos Energy Corporation (“Atmos”) filed the final report on its natural gas hedging activities for the 2005-2006 heating season. Within this filing Atmos also requested Commission approval to continue its hedging program for the 2006-2007 heating season, which will cover the period from November 2006 through March 2007. Atmos has had a Commission approved hedging program in place since June 2001; the most recent version was approved in July 2005 for the 2005-2006 heating season.

Atmos proposes to continue its hedging activities for the upcoming 2006-2007 heating season. The proposed hedging plan consists of futures and no-cost collars, which are the same hedging instruments used by Atmos for most of its hedged transactions during the 5 previous heating seasons.

Atmos plans to supply approximately 66 percent of its winter gas requirements from company-owned storage and pipeline storage. The remaining required winter volumes will be divided between market purchases and financial hedges with no minimum, or floor, for its hedged purchase volumes. Any financial hedging transactions

will be executed between the time of Commission approval of the plan and October 31, 2006. Atmos will continue to file interim (within 30 days of the November 1, 2006 start of the heating season) and final reports (within 30 days of the end of the heating season on March 31, 2007) on its hedging activities as required by the Commission in its approvals of Atmos's previous hedging programs.

Atmos acknowledged that an alternative plan for the winter period of 2007-2008 under which futures contracts would be layered in over a longer period of time may be forthcoming. Atmos explains that layering futures over a longer period of time will offer flexibility to react to market conditions. Atmos contends that layering in futures over a longer implementation period reduces exposure to short-term market fluctuations and provides more opportunity to take advantage of favorable conditions. Therefore, Atmos states that it may file its hedging proposal for the winter period of 2007-2008 within the next few months under a separate docket.

#### DISCUSSION OF 2005-2006 HEDGING PROGRAM

Due to the impact on natural gas market prices of back-to-back hurricanes, and the increased availability of company storage, Atmos did not purchase financial hedges for Winter 2005-2006. Atmos states that at the onset of the hedging implementation period, immediately following Atmos's last hedging plan, prices consistently rose and market conditions were not suitable for purchasing hedges. This initial period was followed by a period when futures prices were much greater than the actual winter NYMEX Strip. Atmos states that these factors show its decision not to purchase hedges was beneficial to its customers. Atmos also states that its level of storage capacity helped maintain relatively stable and low prices.

The Commission finds that Atmos's hedging programs have addressed our concerns regarding price stability for retail customers and that the costs incurred for the program are justifiable, given the expected level of benefits derived therefrom.

#### FINDINGS AND ORDERS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Atmos's report on its natural gas hedging activities for the 2005-2006 heating season should be accepted.

2. Atmos's request to continue its natural gas hedging plan through March 31, 2007 should be approved.

3. Atmos should file interim and final reports on its hedging activities as required by the Commission in its approvals of Atmos's previous hedging programs.

IT IS THEREFORE ORDERED that:

1. Atmos's report on its natural gas hedging activities for the 2005-2006 heating season is accepted.

2. Atmos's continuation of its natural gas hedging plan through March 31, 2007 is approved.

3. Atmos shall file interim and final reports as required by the Commission in its approvals of Atmos's previous hedging programs.

Done at Frankfort, Kentucky, this 16<sup>th</sup> day of June, 2006.

By the Commission

ATTEST:



Executive Director