COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE INTERIM REPORT OF ATMOS ENERGY CORPORATION ON ITS HEDGING PROGRAM FOR THE 2007-2008 HEATING SEASON AND APPLICATION FOR MODIFICATION OF HEDGING PROGRAM	) CASE NO. 2007-00551

O R D E R

On November 29, 2007, Atmos Energy Corporation ("Atmos") filed its interim report on its natural gas hedging activities for the 2007-2008 heating season. On December 20, 2007, Atmos filed its request for approval to continue and modify its current hedging program. Atmos has had a Commission-approved hedging program in place since June 2001; the most recent version was approved in June 2007 for the 2007-2008 heating season. The Attorney General of the Commonwealth of Kentucky ("AG"), by and through his Office of Rate Intervention, was a party to this proceeding and participated in two rounds of discovery as well as two telephonic informal conferences.

Atmos proposes to continue its hedging activities for the 2008-2009 heating season, using futures contracts and no-cost collars as it has done for most of its hedged transactions during the 6 previous heating seasons. Atmos also proposes to modify three components of its plan, the first of which is to change the implementation period[1] during which it purchases these instruments. Under the current program, Atmos may

[1] The implementation period is the months over which Atmos can purchase hedging instruments.

purchase hedging instruments from the time of Commission approval until October 31 of the year in which approval was granted. Atmos proposes to substitute a year-round implementation period. Second, Atmos proposes to hedge for multiple winters, rather than for a single winter as it has done to date. Third, Atmos proposes to make the hedging program permanent. Atmos states that these changes will provide more flexibility for the company, minimize the impact of price spikes in a particular month, and eliminate the need for annual approvals by the Commission.

Atmos routinely supplies between 60 and 70 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. Atmos will continue to file interim reports (within 30 days of the November 1 start of the heating season) and final reports (within 30 days of the end of the heating season on March 31) on its hedging activities as required by the Commission in its approval of Atmos's previous hedging programs. 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.

DISCUSSION

In his comments on Atmos's proposal, the AG stated that he did not oppose the petition for year-round hedging but did not address Atmos's remaining proposed modifications. He did, however, express concern over the accuracy of some of the financial data that Atmos submitted in response to one of the AG's data requests. The

AG had requested a spreadsheet showing Atmos's gas purchase prices on a monthly basis, for the past five years.[2] After reviewing the information submitted by Atmos, the AG detected some unusual prices. The AG questioned the accuracy of the information and whether it affected any of Atmos's accounting entries or gas cost adjustment ("GCA") filings. Atmos agreed that the information contained some errors and corrected the information. Atmos stated in its follow up response that the summary sheets involved were not used for accounting purposes or for preparing its GCA filings. In his comments, the AG declines to pursue this issue further but once again states that the information may or may not have an impact on Atmos's GCA filings. Atmos reiterates in its reply comments that the summary sheets involved were designed for internal informational purposes only and that the misstated volumes contained in the information, which gave rise to the inaccurate per Mcf prices cited by the AG, have not been used in any financial calculation. The Commission has reviewed Atmos's most recent GCA filing and finds no information that appears to be a result of the summary information. Atmos's GCA filing is heavily dependent on estimates, not the type of historical information provided to the AG.

The Commission has approved hedging programs for two other Kentucky gas companies that include multi-winter hedging and year-round implementation periods.[3]

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[2] First Data Request of Attorney General dated January 31, 2008, Item 3.

[3] Case No. 2004-00462, Application of Columbia Gas of Kentucky, Inc. to Implement a New Small Volume Gas Transportation Service, A Gas Price Hedging Plan, An Off-System Sales and Capacity Release Revenue Sharing Mechanism, and a Gas Cost Incentive Mechanism, Order dated March 29, 2005; and Case No. 2005-00191, Application of The Union Light, Heat and Power Company to Implement a Hedging Program to Mitigate Price Volatility in the Procurement of Natural Gas, Order dated August 15, 2005.

Those companies also wished to have more flexibility in purchasing hedging instruments and to experience less reliance on prices within a narrow time frame. Review of these programs indicates that the companies have experienced the desired results and, with the continuation of the previous reporting requirements, that the Commission has been able to monitor the programs in the same manner as when the companies' programs were approved annually. The Commission, therefore, finds that Atmos likewise should be allowed to modify its hedging plan to include multiple winters and allow hedging activity year round. While Atmos requested, and would prefer, that its program be made permanent, it indicated it would support a 5-year extension.[4] Atmos's stated reason for its request to make the program permanent was to eliminate the repetitive annual approval process while continuing Commission oversight. While 5 years will not totally eliminate the approval process, it will give Atmos some relief from the yearly application process. The Commission finds that Atmos's hedging program should be extended for 5 years. Six months prior to the end of that 5-year period, Atmos, if it wishes to continue its hedging program, should apply for continuation and should address the issue of permanency at that time.

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 2007-2008 heating season should be accepted.

[4] Atmos's February 7, 2008 Response to the First Data Request of Commission Staff.

2. Atmos's request to hedge year round for multiple winters should be approved.

3. Atmos's request to make its hedging program permanent should be denied. The hedging program should be extended for 5 years, through March 31, 2013.

4. 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.

5. If it wishes to continue its hedging program beyond the 5-year term authorized herein, Atmos should apply for such continuation no later than September 30, 2012.

IT IS THEREFORE ORDERED 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. Atmos's request to make its hedging program permanent is denied. 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.

Done at Frankfort, Kentucky, this 8th day of April, 2008.

By the Commission

ATTEST:

Stephanie Stumbo

Executive Director