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COMMISSION

January 30, 2014

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

Subject: KPSC Case No. 2013-00421

Dear Mr. Derouen:

Atmos Energy Corporation (Company) herewith submits an original non re-dacted and ten (10) re-dacted copies of the response to Staff's initial request for information dated January 17, 2014 in the above referenced proceeding. The responses to Questions 2 and 3 as well as the attachments to Question 5 are CONFIDENTIAL and will be filed with a petition of confidentiality.

Please contact me at 270.685.8024 if the Commission or Staff has any questions regarding the enclosed report.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Martin".

Mark A. Martin  
Vice President, Rates & Regulatory Affairs

Enclosures

cc: Randy Hutchinson  
Don Erickson

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
COMMISSION

IN THE MATTER OF:

APPLICATION OF ATMOS ENERGY CORPORATION  
FOR CONTINUATION OF ITS HEDGING  
PROGRAM

Case No. 2013-00421

**PETITION FOR CONFIDENTIALITY**

Atmos Energy Corporation ("Atmos Energy" or "Company") respectfully petitions the Kentucky Public Service Commission ("Commission"), pursuant to 807 KAR 5:001 Section 7, and all other applicable law, for confidential treatment of the information contained in the Company's Responses to Data Requests #2, #3 and the attachments to #5 (collectively "confidential information").

1. The Company's Responses to Data Requests #2, #3 and the attachments to #5 contain sensitive pricing information and confidential information about Atmos Energy's hedging strategies. Atmos Energy's hedging strategies (including the prices Atmos Energy would likely pay for hedging contracts under various market conditions) constitutes sensitive, proprietary information which if publicly disclosed could put Atmos Energy at a commercial disadvantage in future hedging negotiations. Prospective brokers of hedging devices would gain insight into how Atmos Energy is likely to react to changing market conditions in terms of what Atmos Energy might be willing to pay for hedging contracts. This information would not otherwise be available. Although the full extent to which Atmos Energy would be disadvantaged in future negotiations is difficult to predict, it is clear that Atmos Energy would likely be disadvantaged in future negotiations if the confidential information is made public.

2. Atmos Energy would not, as a matter of company policy, disclose information like that contained in the confidential information to any person or entity, except as required by law or pursuant to a court order or subpoena. Atmos Energy's internal practices and policies are directed towards non-disclosure of the confidential information. In fact, the confidential information is not disclosed to any

personnel of Atmos Energy except those who need to know in order to discharge their responsibility. Atmos Energy has never disclosed such information publicly. This information is not customarily disclosed to the public and is generally recognized as confidential and proprietary in the industry. The Commission has historically granted Atmos Energy confidential protection to information concerning the actual price being paid by Atmos Energy to individual marketing companies and other suppliers of natural gas.

3. There is no significant interest in public disclosure of the confidential information. Any public interest in favor of disclosure of the information is out weighed by the competitive interest in keeping the information confidential.

4. The confidential information is also entitled to confidential treatment because it constitutes a trade secret under the two prong test of KRS 265.880: (a) the economic value of the information is derived by not being readily ascertainable by other persons who might obtain economic value by its disclosure and (b) the information is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The economic value of this information is derived by Atmos Energy maintaining the confidentiality of the information since prospective brokers could obtain economic value by its disclosure.

5. Pursuant to 807 KAR 5:001, Section 7 (3), temporary confidentiality of the confidential information should be maintained until the Commission enters an order as to this Petition. Once the order regarding confidentiality has been issued, Atmos Energy would have twenty (20) days to seek alternative remedies pursuant to 807 KAR 5:0001, Section 7 (4).

WHEREFORE, Atmos Energy petitions the Commission to treat the confidential information as defined above confidential.

Respectfully submitted this 30 day of January, 2014.



Mark R. Hutchinson  
611 Frederica Street  
Owensboro, Kentucky 42301


**VERIFICATION**

I, Mark A. Martin, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs for Atmos Energy Corporation, Kentucky/Midstates Division, and that the statements contained in the foregoing Petition are true as I verily believe.

  
\_\_\_\_\_  
Mark A. Martin

**CERTIFICATE OF SERVICE**

I hereby certify that on the 30<sup>th</sup> day of January, 2014 the original of this Petition, with the Confidential Information for which confidential treatment is sought, together with ten (10) copies of the Petition without the confidential information, were sent by overnight delivery to the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40206.

  
\_\_\_\_\_  
Mark R. Hutchinson

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

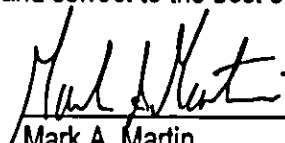
IN THE MATTER OF:

APPLICATION OF ATMOS ENERGY CORPORATION  
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PROGRAM

Case No. 2013-00421


AFFIDAVIT

The Affiant, being duly sworn deposes and states that the attached Responses to the Commission's Data Requests, are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Mark A. Martin

STATE OF KENTUCKY  
COUNTY OF DAVIESS

SUBSCRIBED AND SWORN to before me by Mark A. Martin on this the 30<sup>th</sup> day of January, 2014.

  
\_\_\_\_\_  
Notary Public  
Notary ID#: 468481  
My Commission Expires: 7-30-16

**Atmos Energy Corp.**  
**Commonwealth of Kentucky**  
**Case No. 2013-00421**

**Witness: Mark A. Martin**

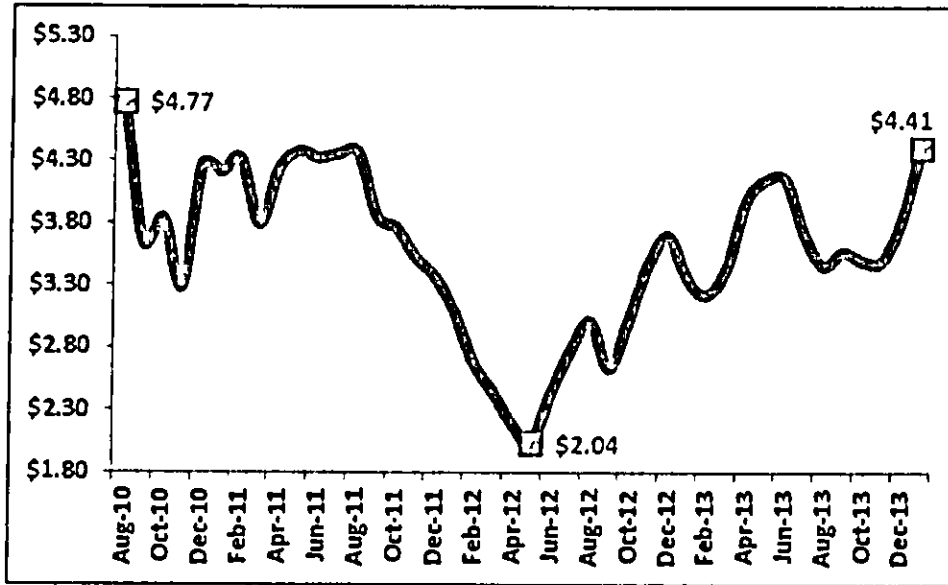
1. Refer to the last page of Atmos' Final Hedging Report, and the last sentence in the last section of the report, which was filed in the record of Case No. 2012-00440 along with a Petition for Confidentiality on April 30, 2013. Assuming the continuation of relatively low natural gas prices and natural gas price projections, explain if Atmos continues to believe that hedging is in the best interest of its customers, and if so, why?

**Response:**

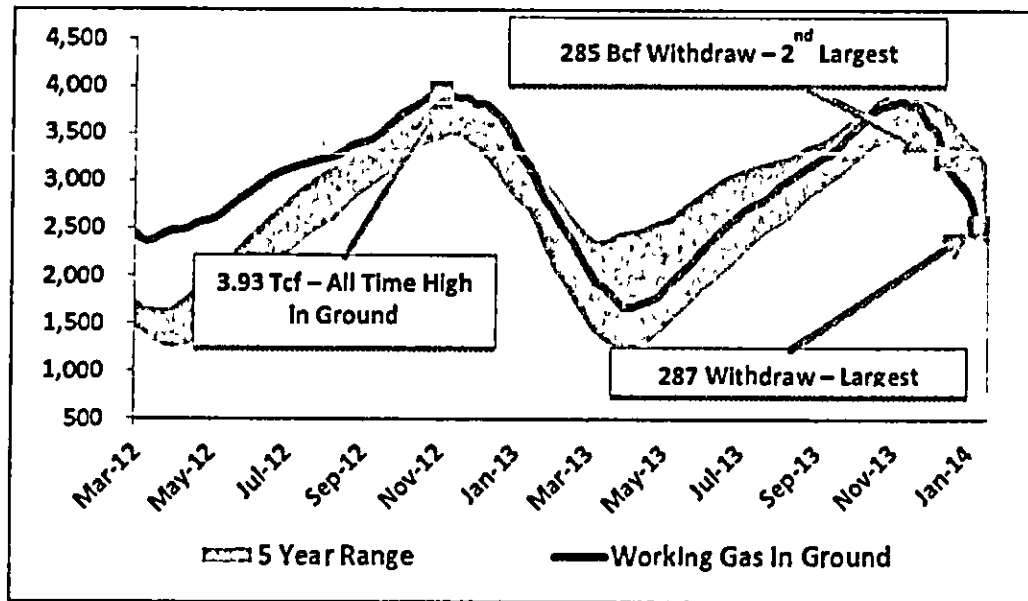
The sentence Staff is referring to is: "Atmos remains convinced that a disciplined hedging strategy is essential risk management for Kentucky rate payers in response to natural gas price volatility and market uncertainty."

Winter 2013-14 is proving that volatility is still occurring in the natural gas market. With the onset of colder than normal weather increased demand has caused increase in prices and record storage withdrawals.

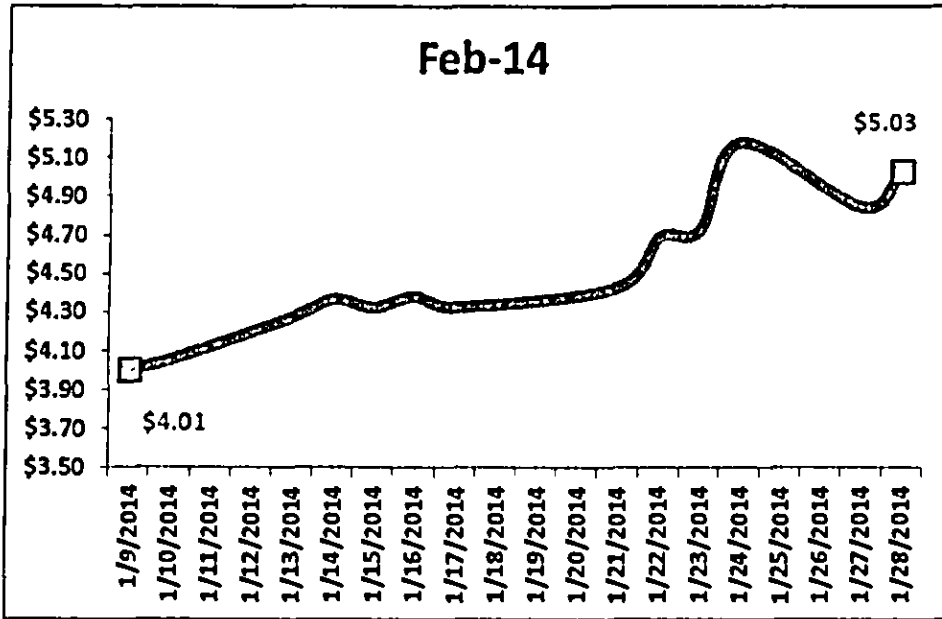
The January 2014 contract settled at \$4.41, the highest settle since the August 2010 contract settled at \$4.77. The chart below shows the last day settle of the August 2010 through January 2014 contracts to illustrate the volatility occurring in the natural gas market with a high of \$4.77 (Aug10 contract), low of \$2.04 (May12 contract) with the next highest price being \$4.41 (Jan14 contract).



Storage activity has also experienced record levels in the past year. After coming out of a warm winter in 2012, working gas in the ground reached an all time high of 3.93 Tcf by the end of the 2012 injection season. Looking at what has occurred during the 2013-14 winter we see a record withdraw of 285 Bcf occurring in December only to be surpassed a few weeks later in January with an all time high withdraw of 287 Bcf.



With increased demand due to colder than normal weather, winter prices have increased as a result. The following chart shows the Feb14 contract from January 9<sup>th</sup> to January 28<sup>th</sup> increasing from \$4.01 to \$5.03 or an increase of 26% occurring in just 13 trading sessions.



Taking into account recent price activity combined with expected increases in demand from greater use of natural gas for electricity generation, LNG exports and industrial demand (detailed in Atmos' Interim Report), Atmos is still convinced that a disciplined hedging strategy is essential risk management for its Kentucky ratepayers regarding natural gas volatility.



**Atmos Energy Corp.**

**Commonwealth of Kentucky**

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2. Refer to the three graphs provided on the second and third pages of Atmos' unredacted Interim Hedging Report filed with the Application in this proceeding. Specifically, these include a graph showing Atmos' Implementation Average and two graphs showing Atmos' Volatility Results.
  - a. Provide these graphs for each of the previous five heating seasons.
  - b. The second graph on the third page depicts gas price volatility results for the last three months of the implementation period, August through October 2013. Provide similar graphs for the preceding months of the implementation period, and explain any difference in volatility reduction.
  - c. Provide the average Atmos effective price represented by the first graph on the third page.

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**Commonwealth of Kentucky**

**Case No. 2013-00421**

**Witness: Mark A. Martin**

3. Refer to the eighth page of Atmos' unredacted Interim Hedging Report, which provides the total gas cost annually from 2008 through September 2013. Provide information as set out in the table for the entirety of 2013, as well as the updated total for the six-year period.

Response:

Please see the updated table below containing information for the entirety of 2013 with an updated total for the six years listed.

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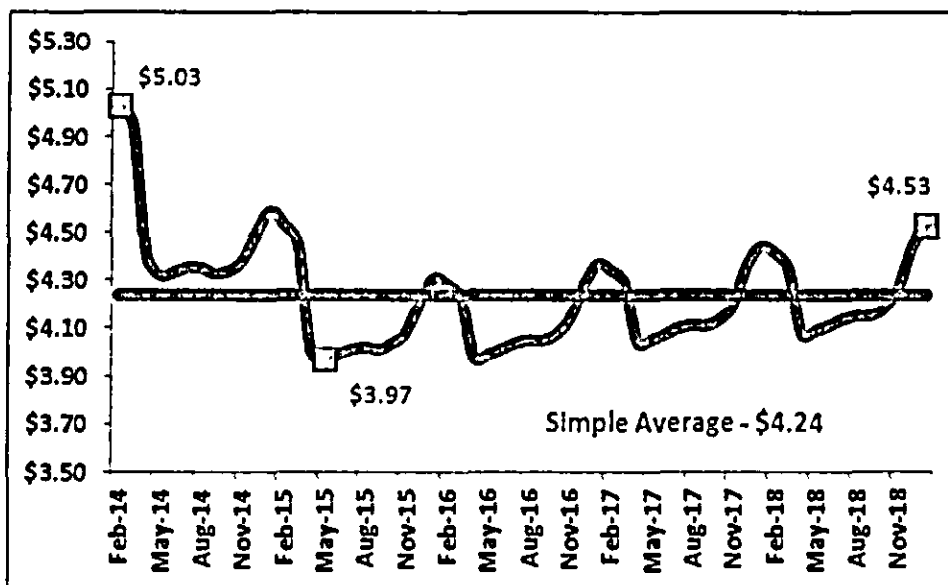
**Case No. 2013-00421**

**Witness: Mark A. Martin**

4. For the proposed five-year gas cost hedging extension period, provide the following:
- a. Atmos' best estimate, based on publicly available projections, of the potential for gas price volatility during the proposed five-year extension period; and
  - b. Atmos' best estimate, based on publicly available projections, of gas prices during the proposed five-year extension period.

Response:

Atmos' best estimate of potential for price volatility and price projections would reflect what the market is currently trading at. As of January 28, 2014 the NYMEX natural gas forward curve for the next five years is listed below along with a simple average. The forward curve prices are in a range from a high of \$5.03 (the February 2014 contract, contract closest to expiration) to a low of \$3.97 (May 2015 contract) with the last month of the five year strip (January 2019 contract) trading at \$4.53.



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**Witness: Mark A. Martin**

5. Provide an electronic copy of the Microsoft Excel spreadsheets supporting Exhibits A and B of the Application, with the underlying data and formulas intact.

**Response:**

Please see attachments "Exhibit A - Kentucky Implementation Summary" and "Exhibit B - Kentucky Recoverable Gas Cost 5 years" for a copy of Microsoft Excel spreadsheets supporting the associated exhibits in the Application. The file for Exhibit B contains updated gas cost information for the entirety of 2013 which was unavailable at the time the Application was filed.

**CONFIDENTIAL**

**Atmos Energy Corp.**  
**Commonwealth of Kentucky**

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**Witness: Mark A. Martin**

6. Confirm that Atmos is proposing no change from its currently approved hedging plan, other than the added ability to use options as a hedging tool as approved on an interim basis in Case No. 2012-00110.

**Response:**

Atmos confirms that it is proposing no change from its currently approved hedging plan, other than the added ability to use options as a hedging tool as approved on an interim basis in Case No. 2012-00110.