

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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| In the Matter of Atmos Energy |) | |
| Corporation's Purchased Gas Adjustment |) | |
| Factors to be Audited in its 2002-2003 |) | Case No. GR-2003-0219 |
| Actual Cost Adjustment |) | |

SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION AND AGREEMENT

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully submits its Suggestions In Support Of Unanimous Stipulation And Agreement.

A. Background

1. This case concerns the 2002-2003 ACA filing for the Missouri operations of Atmos Energy Corporation ("Atmos" or "Company"). This would include Area G (Greeley Gas), Areas B, K and S (formerly Associated Natural Gas), and Areas P and U (formerly United Cities Gas). The Staff, Atmos, and the Office of the Public Counsel are parties to this case.

2. On December 22, 2004, following its annual ACA audit of Atmos Energy Corporation ("Atmos" or "Company"), the Staff filed its Recommendation in this proceeding. Atmos filed its Response on January 20, 2005.

3. On January 26, 2005, the Commission ordered that a prehearing conference be held on February 7, 2005 and that the parties file a proposed procedural schedule by February 14. During the on-the-record portion of the prehearing conference, the presiding Regulatory Law Judge granted an extension, until February 22, 2005, of the time to file the proposed procedural schedule.

4. As a result of discussions commencing at the prehearing conference, the parties were able resolve all of the contested issues. Therefore, on February 22, the parties filed their Unanimous Stipulation And Agreement (“Agreement”) in lieu of a proposed procedural schedule. Paragraph 9 of the Agreement states that the Staff would file suggestions in support of the Agreement. On March 15, 2005, the Commission issued an Order directing the Staff to file its suggestions no later than March 22, 2005.

B. Discussion

5. In its January 20, 2005 Response to the Staff’s Recommendation, Atmos took issue with a number of Staff recommendations and agreed with the others. The Agreement sets forth the ultimate resolution of the contested recommendations and memorializes those with which Atmos agreed in its aforementioned Response. The discussion here is limited to the resolution of the initially contested Staff recommendations.

6. As a result of the exchange of clarifying information, the following issues eventually settled out:

Area G (formerly Greeley Gas)

a) Refunds: New information was received by the Staff following a disputed \$487 debit adjustment. This prompted a re-calculation of refund balances and resulted in a credit adjustment of \$4546, which was agreeable to the parties.

Areas P and U (formerly United Cities Gas)

b) Deferred Carrying Cost Balance (“DCCB”): The Company requested clarification regarding the Staff’s proposed adjustments to the demand over-recovery balance and the commodity over-recovery balance on both the Consolidated and the Neelyville Districts.

Upon receipt of the requested clarification from Staff, Atmos agreed with the proposed adjustments.

Areas B, K, and S (formerly Associated Natural Gas)

c) ACA Balance: Although Atmos agreed with the adjustments proposed in Staff's aforementioned Recommendation, the Company claimed that when it carried forward the adjustments from the 2001-2002 ACA filing (Case No. GR-2003-0150)¹ to the 2003-2004 ACA filing (Case No. GR-2004-0479), it: a) overstated the Area S firm adjustment by \$67,357, b) overstated the Area S interruptible adjustment by \$6,179, c) understated the Area K firm adjustment by \$9,172, and d) understated the Area K interruptible adjustment by \$2,080. The parties agreed with Atmos' proposal to make these corrections in its 2004-2005 ACA filing, and the Staff will review these ACA balance adjustments in connection with its 2003-2004 and 2004-2005 ACA reviews.

d) Deferred Carrying Cost Balance ("DCCB"): Pending resolution of some remaining questions, Atmos initially withheld its agreement to Staff's proposal that firm gas costs on the Kirksville District be increased by \$12,173 in order to correct a miscalculation of carrying costs for the time period from January 2003 to August 2003. After receiving further documentation from the Staff, Atmos agreed with Staff's adjustment.

e) Refunds: Following some initial confusion as to whether or not Atmos was distributing pipeline refunds to its customers during the 2002-2003 ACA period, the Company provided worksheets indicating that, in fact, such distributions were being made during the subject ACA period, thus supporting Staff's refund adjustments in the instant case, as well as in the preceding ACA case (Case No. GR-2003-0150).

¹ In the discussion of this issue on page 2 of the Agreement, Case No. GR-2003-0150 was erroneously described as the 2002-2003 ACA filing.

f) Transition Costs: Atmos disputed both of the issues raised in the Staff's December 22, 2004 Recommendation; *i.e.*, 1) a concern that Atmos intended, contrary to its tariff, to write off a Transportation Transition cost credit balance of \$7,149 for the SEMO District, and 2) the Staff's recommended \$707 credit adjustment to the Transportation Transition cost balance for the Kirksville District. Upon receipt of further information, the Staff agreed that no adjustments are necessary.

7. Given that the preceding issues settled out, only three quantitative issues remained for settlement by compromise; namely:

Areas P and U (formerly United Cities Gas)

a) Agency Fees: The Company incurred agency fees totaling \$1009 for nomination and other pipeline management services provided under an agency agreement with a marketing company. Atmos disagrees with the Staff's view that these fees are more closely related to consulting services than to gas costs and that, therefore, recovery should be sought in the context of a general rate case. The parties agreed that, strictly for purposes of the settlement of this issue in this case, gas costs should be reduced by \$505, which is 50% of the Staff's recommended adjustment.

Areas B, K, and S (formerly Associated Natural Gas)

b) Over-run Gas: Atmos challenged, pending resolution of outstanding issues and amounts, the Staff's recommendation that over-run gas charges from ANR Pipeline Co., for both firm and interruptible customers, be reduced by a total of \$10,017. Upon receipt of further information detailing the causes of the over-run charges, the parties agreed, for purposes of the settlement of this issue in this case, to an adjustment of \$4,770, which is slightly less than half of Staff's initially recommended adjustment.

c) Louisiana Property Tax: In its Recommendation, the Staff proposed to disallow a Louisiana property tax of \$2,219, levied on a storage facility used by Atmos under a contract with Mississippi River Transmission Corp. The Company disagrees with the Staff's view that such a tax is more properly recoverable in the context of a general rate case. The parties agreed, strictly for purposes of the settlement of this issue in this proceeding, that gas costs on the SEMO District should be reduced by \$1,110, which is 50% of the Staff's recommended adjustment.

8. The Staff's recommended cost reductions for the three disputed items in paragraph 7 above, which totaled \$13,245, were thus settled for an overall reduction of \$6385, or slightly less than half of Staff's original recommendation. The Staff considers this to be a reasonable settlement of these items in light of the relatively small dollar amount at issue and in consideration of the cost of litigation. Paragraph 6 of the Agreement notes, among other things, that the parties' agreement to the dollar settlement reflected therein does not constitute agreement to, or acquiescence in, any accounting or ratemaking principle.

9. The only other issue in this case arose in connection with Staff's desire, during its audit, to examine any work papers of Atmos' external auditor (Ernst & Young) that dealt with the issue of gas costs in the Company's Missouri jurisdiction. As noted in the Agreement, based on the documentation furnished by Atmos, including: a) an affidavit from the Company's Vice President and Controller attesting to their statements made during the November 30, 2004 conference call with Staff; b) a copy of the internal control letter from Ernst and Young, and c) a copy of the November 11-12, 2002 minutes from a Board of Directors Audit Committee meeting with Ernst and Young, the Staff is satisfied, for purposes of the 2002-2003 ACA review, that work papers specific to Atmos' Missouri jurisdiction do not exist. It is to be noted, however, that

the Staff reserves the right to examine any work papers related to Atmos' Missouri-jurisdictional gas costs that may be generated in connection with any future external audits of the Company. Indeed, the Staff intends to raise this matter routinely in subsequent ACA proceedings.

WHEREFORE, the Staff respectfully submits its Suggestions In Support Of Unanimous Stipulation And Agreement, and recommends that the Commission issue an Order approving the Unanimous Stipulation And Agreement (including the ACA, Refund, and Transition Cost balances appended thereto), filed in this proceeding on February 22, 2005.

Respectfully submitted,

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 21st day of March 2005.

/s/ Dennis L. Frey