MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2003-0219, Atmos Energy Corporation

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Project Coordinator / Date	General Counsel's Office / Date

SUBJECT: Staff's Recommendation in Atmos Energy Corporation's 2002-2003 Actual Cost Adjustment Filing

DATE: December 21, 2004

The Procurement Analysis Department (Staff) has reviewed Atmos Energy Corporation's (Atmos or Company) 2002-2003 Actual Cost Adjustment (ACA) filing for the former territories of Greeley Gas (Area G), United Cities Gas (Areas P and U), and Associated Natural Gas (ANG) Service territory (Areas B, K, and S). This filing was made on October 20, 2003, and was docketed as Case No. GR-2003-0219. The 2002-2003 ACA filing rates became effective on November 1, 2003.

Staff's review consisted of an audit and evaluation of the billed revenues and gas costs for the period of September 1, 2002 to August 31, 2003 for Areas B, K, and S and June 1, 2002 to May 31, 2003, for Areas G, P, and U. A comparison of billed revenue recovery with actual costs will yield either an over-recovery or under-recovery of the ACA, Refund, and Transition Costs. Staff also performed an examination of Atmos' gas purchasing practices to determine the prudence of the Company's purchasing decisions. Staff conducted a reliability analysis including a review of estimated peak day requirements and the capacity levels needed to meet these requirements. Staff also conducted a hedging review to determine the reasonableness of the Company's hedging plans for this ACA.

Southern Star Central Pipeline (SSCP) currently serves customers on Atmos' Southwest Missouri District (Area G). SSCP operated as Williams Gas Pipeline Central during this ACA period. Area G serves approximately 500 customers in Rich-Hill and Hume, Missouri.

Atmos Areas P and U (formerly United Cities) are separated into the Consolidated District (Area P and part of area U) and the Neelyville District (the rest of area U). The Consolidated District is comprised of the former districts of Hannibal/Canton, Bowling Green and Palmyra. Atmos serves approximately 14,500 customers in the Consolidated District and 560 customers in the Neelyville District.

Atmos gas operations in Areas B, K, and S are separated into the following districts: SEMO (Area S), Kirksville (Area K), and Butler (Area B). The SEMO, Kirksville, and Butler districts serve approximately 36,600 customers, 6,100 customers, and 3,800 customers, respectively. For purposes of the reliability review, Atmos separates its Missouri gas operations into the following service areas: Butler/Panhandle Eastern Pipe Line (PEPL), Kirksville/ANR, Jackson/Natural Gas Pipeline (NGPL), Piedmont/Mississippi River Transmission (MRT), and the Southeast Missouri Integrated system consisting of Texas Eastern Pipeline (TETCO), Ozark Gas Transmission, and Arkansas Western Pipeline.

This memorandum is organized into four sections. Each section begins with detailed explanations of our concerns and recommendations. Each, except for the first section, continues with a summary, and ends with a concise recommendation. The four sections are:

1) Atmos Energy Corporation, General
2) Area G (Greeley Gas)
3) Areas P and U (Formerly United Cities Gas)
4) Areas B, K, and S (Formerly ANG)

ATMOS ENERGY CORPORATION - GENERAL

EXTERNAL AUDIT WORKPAPERS

The Staff was not allowed to review the external audit workpapers regarding billed revenue, gas purchasing and derivatives related to the Purchased Gas Adjustment (PGA) and Actual Cost Adjustment (ACA). The external audit is an important source of assurance that the PGA and ACA costs are properly accumulated and passed on to customers in compliance with the Company's tariff. However, in response to several Staff requests for the workpapers, Atmos indicated that it's external auditors, Ernst and Young (E&Y):

1) Have no audit workpapers specifically related to Missouri in the areas of billed PGA revenue, PGA clause, gas purchasing and derivatives during the audit periods of June 2002 – August 2003.
2) Send Atmos a letter each year declaring that they have found no material weaknesses in internal control.
3) Report verbally to the Atmos Audit Committee of the Board of Directors about their audit results each year, but provide no written report except the standard opinion attached to the Company's published financial statements.

Due to the unavailability of external audit workpapers, the PSC Staff performed alternative procedures. Staff obtained an affidavit from Atmos' Chief Financial Officer attesting to the comments made during the November 30, 2004, conference call with Staff, Staff reviewed a copy of the internal control letter from Ernst and Young, and Staff requested a copy of the minutes from an Audit Committee meeting with Ernst and Young. Staff believes that these procedures are acceptable in this ACA review.

CAPACITY RELEASE PROCEDURES

The Staff believes that, to minimize gas demand costs, the Company should have a consistently applied procedure to solicit buyers for pipeline capacity that can be released for one month or less, for several months, or on an annual basis, both for releases that are recallable and non-recallable. Atmos indicated to the Staff, "The Company does not have written documentation for the solicitation of bids for releasing capacity. The Company has minimal available capacity for release during the winter months. To the best of our knowledge, the Company's limited experience in releasing capacity in the summer months has been unsuccessful." The Company indicated that capacity was released on the Panhandle Eastern Pipeline for the Hannibal area during February through May of 2003, and on the Texas Eastern Pipeline during February through August 2003 (no released capacity on Butler or Kirksville). No detailed information about the capacity release transactions was available. In addition, the Company provided no documentation of its attempts to release capacity. The Company also indicated that it currently does not have any written capacity release procedures. Staff's concerns regarding excess capacity for the Kirksville system were documented in the 2000-2001 Staff Recommendation, Case No. GR-2001-396, and continue to be a concern; these concerns are documented in more detail in the Reliability section of this document.

Staff recommends that Atmos document the Company's capacity release procedures in a document or manual, to include at a minimum the procedures for the following:

1. Identifying excess capacity that can be released on a monthly basis, seasonal basis, or annual basis and noting whether it can be released on a recallable or non-recallable basis for the specified timeframe;
2. Notifying potential buyers about the capacity available for release;
3. Documenting and evaluating all offers or bids (including a summary of all offers/bids and details of the pricing and volumes associated with each transaction); and
4. Using established criteria for selecting the winning bid and documenting the selection.

Staff requests that Atmos provide to the Missouri PSC Staff a copy of the Company's capacity release procedures by May 31, 2005.

HEDGING

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Given the nature of hedging strategy adopted by the Company that utilizes various financial instruments, it is recommended that the Company should carefully continue to monitor the market movement and look into the possibility of expanding its gas portfolio to include physical hedges other than storage in order to ensure successful and prudent hedging.

RELIABILITY ANALYSES

To assure that sufficient capacity, but not excess capacity, is available to meet firm customer peak day capacity and natural gas supply requirements, Staff conducts a reliability analysis. The objective is to assure that a company has adequate capacity to provide natural gas to its firm customers on even the coldest days, without maintaining excess capacity that would cost consumers money without any related benefit.

Atmos' reliability analyses are for the service areas of Butler, Kirksville, Jackson, Piedmont, Southeast Missouri Integrated (SEMO), Greeley, Consolidated (Hannibal, Canton, Palmyra, Bowling Green), and Neelyville. Jackson and Piedmont are included in the SEMO district for purposes of the tariff, but are separated in the reliability review because Jackson and Piedmont are each served by separate pipelines and the capacity requirements must be evaluated for each pipeline.

Staff has the following comments and concerns regarding the Company's reliability analyses for these service areas.

A. Atmos Regression Analyses

1. For each of the districts, except Greeley, the Company conducted two to three regression analyses. The analyses consider usage data for December through February for 2001-2002 and 2002-2003. Only the data from 2001-2002 winter would have been known when the Company was planning for the 2002-2003 ACA period. The data analyzed by Atmos in its response to Data Request (DR) No. 45 would be relevant for estimating usage for the 2003-2004 ACA, but not for the 2002-2003 ACA. In all future ACA reviews, Atmos should supply the analyses and data that were considered for that ACA, not an after-the-fact review.

   Additionally, the base load factor, heat load factor, and R-squared shown in the Atmos plots of the data do not match the Atmos values shown in the Excel Regression analysis Summary Output tables. Atmos explains that the values in its plots are different from the values in its tables because the analyses for the plots excluded some of the data. The Summary Output tables contain valuable information not noted in the plots. Thus, Atmos workpapers for both the Summary Output tables and the plot for each set of data evaluated by Atmos should be made available to Staff for the 2003-2004 ACA.

2. For the Greeley service area Atmos originally provided a usage analysis for just the Missouri portion of the service area. However, further review showed that data considered in the analysis was for December 2001 through February 2004, and much of this data would not have been available when planning for the 2002-2003 ACA; all of this data would not have all been available until planning for the 2004-2005 ACA. In a follow-up response, Atmos clarified that the last peak day design study relevant for this ACA was that conducted in response to the Staff recommendation in the GR-2003-0150 case, 2000-2001 ACA; this information was also provided to Staff in the GR-2001-396 case. For the December 2001 through February 2004 analysis, Atmos removed some of the data points, but rationale for removing these data points was not provided. For the 2004-2005 ACA, the Company should explain why it excluded data from the analysis. In all ACA reviews, Atmos must provide the analyses and data that were considered for that ACA, not an after-the-fact review.

3. These regression analyses are only used by Atmos to estimate peak day requirements. It is not clear why the Company does not use its regression analyses results to estimate usage for each service area. Using the regression analyses results, estimates could easily be made for normal weather, cold weather, and warm weather, which would give Atmos a better idea of the fluctuations in supply requirements for each service area.

Although Atmos states that its estimates of normal requirements are weather normalized, the data that Atmos provides for the entire system shows that the normalization calculation is done each month and is based on only the monthly total in each of the previous two years, which is only two data points. Atmos averages these two values. Thus, the normal estimate is based on only two data points. Staff does not believe that the review of two data points is sufficient for normalizing the data.

B. Atmos Supply Plans

1. Normal, Cold and Warm Weather Supply Plans

a. To address the topic of differing requirements for normal, cold, and warm winters and a historic cold (peak) day, the Company gave the same response for all districts, except Greeley. It states that for a normal winter, a fixed quantity of gas, base load gas, at the first of each month is nominated and the balance comes from a combination of storage withdrawals and incremental gas supply. During a colder than normal winter, Atmos states that base load gas could be increased along with increased storage withdrawals, and additional incremental gas supplies could be added to ensure that adequate storage levels are maintained for late seasonal peaks. For a warmer than normal winter, Atmos states that base load can be reduced along with storage withdrawals. (DR No. 62)

The Atmos statements regarding supply planning are very broad. Guidance to those who make the gas purchasing decisions should be clear. For example, if November or December is 15% colder than normal, is there a minimum storage volume that must be maintained to assure sufficient storage deliverability in the later winter months, and how is this different for each of the Atmos service areas? If the early winter months are mild, how does this impact supply decisions for the later winter months? Are there minimum and maximum guidelines/targets for storage withdrawals and how is this different for each of the Atmos service areas? In order to address the above concerns, Staff recommends that Atmos have more specific guidelines for those ordering the gas.

b. In the 2001-2002 ACA case, Case No. GR-2003-0150, for the Greeley system Staff recommended that Atmos provide more complete natural gas supply plans for a warm, normal and cold winter, regarding supply resources that will be used to meet peak day requirements, including availability of sufficient natural gas from storage for later winter months. In its response to this Staff recommendation for the Greeley system, Atmos provided estimated requirements for 10% colder and 10% warmer than normal weather. Atmos did not provide its justification for assuming that normal plus or minus 10%

is adequate. Staff's review of 30 years of heating degree days (HDD) for December shows that 10 of 30 Decembers were warmer and 4 of 30 Decembers were colder (warmer and colder than normal plus or minus 10%); thus 47% of the Decembers were outside of the limits considered by Atmos. January data showed 7 of 30 were warmer and 6 of 30 were colder; thus 43% of the Januarys were outside the limits considered by Atmos. Staff recommends that Atmos use more encompassing limits for a cold winter and a warm winter.

2. Staff requested documentation of the Company's procedures for determining monthly nominations from all available supply sources, and the Company's response for all districts was that the documentation is not available (DR No. 61). Surely there is a procedure for determining monthly nominations, even if it is in someone's head. What happens when the person(s) making the nomination decisions for each service area are not available because of illness, resignation, or some other reason? Staff recommends that Atmos have written procedures of its monthly nomination process including an explanation of the reports and data that must be considered in determining the volumes to be nominated from each supply source.

3. Butler System Supply Plans
Although no adjustment is being proposed, Staff has concerns regarding the Company's plans and actions related to gas supply and storage utilization for the Butler system.

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____ ** The response to DR No. 103 states that late in the storage injection season, sufficient space must be left to allow for injection of natural gas into storage if the weather is warmer than anticipated and that the flexibility to inject natural gas into storage reduces exposure to pipeline overrun charges or uneconomic sales of gas back to the supplier. ** ___
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Staff asked Atmos about the Butler System storage balances at the end of January and February compared to the planned level. Atmos' response states that the planned requirements for November and December were too high, which resulted in increased storage levels for January and February. In an effort to pull more gas from storage in March, Atmos reduced its first of month (FOM) purchases significantly. Since there were increased storage levels in January, Staff has to ask why weren't actions taken in February? Also, the Company's estimates of normal requirements for November through February are much more than that estimated by Staff using the factors from the Company regression analysis (14.6% to 35.9% higher). Since Atmos commented that the planned requirements for November and December were too high, Staff questions whether Atmos' supply plans for normal weather are reasonable.

It is recommended that Atmos reevaluate and document its plans for normal requirements and how those plans will be adjusted when the weather is not normal.

4. Southeast Missouri Integrated System Supply Plans

Although no adjustment is being proposed for the Southeast Missouri Integrated system, Staff has concerns regarding the Company's plans and actions related to gas supply and storage utilization.

Staff asked Atmos about the high level of Southeast Missouri Integrated system storage balances at the end of January, February, and March. Atmos' response states that the planned requirements for November and December were too high which resulted in increased storage levels for January and February. In an effort to pull more gas from storage in March, Atmos reduced its FOM purchases significantly. Since there were increased storage levels in January, Staff has to ask why actions weren't taken in February? Also, the Company's estimates of normal requirements for November through February are much more than that estimated by Staff using the factors from the Company regression analysis (19.7% to 46.6% higher). Since Atmos commented that the planned requirements for November and December were too high, Staff questions whether Atmos' supply plans for normal weather are reasonable.

It is recommended that Atmos reevaluate and document its plans for normal requirements and how those plans will be adjusted when the weather is not normal.

5. Greeley System Supply Plans

Although no adjustment is being proposed for the Greeley system, Staff has concerns regarding the Company's plans and actions related to gas supply and storage utilization, and these are detailed below. To address these concerns, Staff recommends that the Company re-evaluate its estimates for usage for all months for the Greeley system. Additionally Staff recommends that Atmos consider whether modification of its supply plans are necessary for October and November to appropriately manage its storage contracts to assure that adequate, but not excess volumes of storage are available for each of the heating season months.

a. Atmos overfilled its two storage contracts for the Greeley system to 111.4% and 114.4% at the end of October 2002. One of these contracts remained above 100% through the end of December 2002. The other contract had a negative balance at the end of January 2003.

   One explanation that the Company gives for the storage overruns is that in September and October the actual system requirements were significantly less than estimated requirements. The Company's estimate of normal requirements for October is much greater than Staff would expect for normal weather; Staff bases this evaluation on the Atmos regression analysis results. Additionally, the October system requirements in Atmos' Summer Plan are 30% more than its estimate of normal requirements. The Company states that in November it planned on reducing storage inventory, but the planned storage balance at the end of October was greater than estimated by the original Atmos Winter Plan.

   If the Atmos estimate for normal October requirements in its Summer Plan had been reasonable, the Company would not have been faced with the same concerns with storage balances in November and December. In fact October was much colder than normal. So if the weather had been warm, or even normal, the storage balance would have been even higher at the end of October, which could have resulted in even greater charges for storage overruns.

   The Company estimates May usage to have no heat load and thus usage is estimated the same as for the warmer months of July and August, but the actual usage in May does not support that May usage is only base load.

   Poor estimates of usage can result in problems with supply planning. However, missing the May usage estimate does not have the same impacts as missing the October estimate. If the Company is off on its May estimate, it can still make corrections to get storage in line before the winter season. If the estimate for October is inaccurate, the Company could overfill or underfill its storage, which could cause overrun charges or problems meeting winter requirements.

b. Atmos' supply plans (its Summer and Winter Plans) show that the Company plans for requirements for normal weather. The plans include injections and withdrawals for normal weather. The Plans indicate that Atmos relies on the total flowing supplies to come from base at first-of-month prices. Thus the same amount of gas would flow on each day of the month for normal weather. If the weather is warmer than normal in September and October, more gas would have to be injected than planned. This can be a problem if the storage is already full or nearly full, which was the case in this ACA. In fact the storage balance problem noted above could have been worse. October was much colder than normal and November was 5% colder than normal. One of Atmos' storage resources was full at the end of September. If October and November had been warm, what would Atmos have done with the excess flowing supply? If the pipeline had issued an operational flow order in either of these months, there could have been large penalties.

c. The Company also notes that it underestimated the system requirements in the production zone, which resulted in depleting storage at the end of January. This is another example of the problems the Company has with estimating requirements. January weather was normal, and yet one of the Company's storage balances was negative at the end of January.

d. Atmos has a supply contract with a third party that states that this third party will ensure that Atmos' Greeley storage account is physically filled by October 31, 2003. However the contract does not clarify what is considered full – is it 100% or only 85%? This lack of documentation in the contract is of concern to Staff.

6. Consolidated System Supply Plans
Although no adjustment is being proposed for the Consolidated system, Staff has concerns regarding the Company's plans and actions related to gas supply. Atmos does not provide separate estimates of normal requirements for the Consolidated District. Instead it provides estimates that include both the Consolidated district and Virden, Illinois. Staff cannot determine whether these estimates of normal requirements are reasonable because the regression analysis and supporting data provided by Atmos are only for the Consolidated district and no data is provided for Virden. For the 2003-2004 ACA, Atmos must provide details of how it estimates normal requirements for its gas supply plans for the Consolidated district; and if Virden is included in the estimate of normal requirements, then the data supporting this estimate for both Consolidated and Virden must be provided to Staff.

7. Neelyville System Supply Plans
Although no adjustment is being proposed for the Neelyville system, Staff has concerns regarding the Company's plans and actions related to gas supply. Atmos' peak day planning is done for the entire Neelyville area. However Atmos' gas supply plans are split for the two pipelines serving the Neelyville area. The supply

plan for Neelyville/NGPL is shown separately from the Neelyville/TETCO plan. Additionally, the Neelyville/TETCO plan is only a portion of the supply plan for the Southeast Missouri Integrated System.

Since Atmos does the supply planning separately for each pipeline serving Neelyville to assure sufficient supply for the various Neelyville customers, then to assure sufficient supply and capacity on each pipeline the reliability studies should also be structured for this consideration. In other words, separate regression analyses must be run for each pipeline serving this area. It does no good to have the overall capacity at an acceptable level, but then find that there is excess capacity on one pipeline and a shortfall on the other pipeline (Staff is not saying that this is the case here, but that it is unknown because the analysis has not been done by Atmos.)

If the Neelyville supply and capacity on TETCO are considered in the supply plans for the Southeast Missouri Integrated system, then the reliability studies should reflect this. Additionally, the supply and capacity on NGPL should be evaluated for the Missouri customers.

C. Atmos Capacity Release for the Kirksville System

The 2002-2003-reserve margin of 37.6% for a peak cold day of 80 HDD is high. However as noted in prior ACA reviews, when the transportation agreements were put in place, the peak day estimate was much higher. The transportation contracts do not expire until 10/31/08 and 3/31/09. Atmos customers are paying for this excess capacity – capacity that is not needed even if the historic coldest day were to recur. Although the contract term limits actions that can be taken by Atmos, capacity release is not restricted by the contract term. Any capacity releases would offset some of the costs of this excess capacity.

In the GR-2003-0150 ACA recommendation, Staff recommended that the Company provide detailed documentation of efforts and results to release excess capacity for the Kirksville service area for the 2002-2003 ACA period. Additionally Staff recommended that the Company provide information showing that Atmos has made efforts to release capacity and has considered non-recallable releases for at least six months to one year in order to better market the capacity releases for the 2003-2004 winter and forward. This issue of excess capacity and the documentation of capacity release efforts and results for the Kirksville service area was also raised in the 2000-2001 Staff Recommendation in Case No. GR-2001-396.

Atmos states that it has no written documentation for the solicitation of bids for releasing capacity. Staff recommends that Atmos document its capacity release procedures.

Atmos states that it has minimal available capacity for release during the winter months and to the best of its knowledge, the limited experience in releasing capacity in the summer months has been unsuccessful. (DR No. 74) Atmos provides documentation of actual releases, but makes no efforts to document attempts to release capacity for the 2002-2003 ACA. It is not reasonable to assume that capacity cannot be released just because Atmos has been unsuccessful in the past. Efforts to release capacity must be made. The Staff Recommendation for Case No. GR-2003-0150 was filed September 15, 2003. Thus actions taken by Atmos in response to that Staff recommendation should be more evident in the 2003-2004 ACA review. Staff will be looking for not only the actual releases, but also the attempts made by Atmos for the 2003-2004 ACA period.

AREA G (FORMERLY GREELEY GAS)

REALLOCATION OF SOUTHERN STAR STORAGE, TRANSPORTATION AND GAS SUPPLY

Staff identified the proper demand-related costs associated with SSCP transportation and storage. The transportation and storage demand costs were then multiplied by the Missouri allocation factors developed by the Staff (for demand costs). For the period of June 2002 to October 2003, Staff used a demand allocation factor of 2.9% (carried forward from the 2001-2002 ACA), versus a Company-filed allocation factor of 2.67% to Missouri. For the period of November 2002 to May 2003, Staff developed a demand allocation factor of 2.819%, versus 2.67% filed allocation factor. The Staff proposes an increase of $1,806 ($97 + $1,876 - $167) to the demand cost of storage and transportation (including capacity release) and a decrease of $246 ($7 + $81 + $81 - $415) to the commodity cost of gas purchases, transportation, and storage injection fees. This results in a net increase in demand and commodity-related costs of $1,560 ($1,806 - $246).

STORAGE

Staff determined the cost of storage injections/withdrawals by using the weighted average cost of gas method. During this ACA period, Staff relied on Greeley's billed storage injection and withdrawal volumes. Those volumes were based on Greeley's planned storage injection and withdrawal volumes and storage inventory balances that were administered by its agent, Tenaska Marketing Ventures, and by BP Energy, effective April 2003. Staff will continue to monitor the planned injection and withdrawal volumes to actual volumes flowed on SSCP to test the reasonableness of the storage injections and withdrawal data filed by the Company.

Staff made a storage adjustment of ($10,931) during the 2001-2002 ACA review, Case No. GR-2003-0150. An order was issued approving the Stipulation and Agreement with an effective date of April 4, 2004. The current ACA filing (2002-2003) was filed with rates effective November 1, 2003. As the order was issued after the current ACA filing was made, no storage adjustment was included in this ACA filing. Staff therefore believes that Staff's storage adjustment of ($10,931) should be included in the Company's 2003-2004 ACA balance.

REFUNDS

Staff calculated the monthly refund balances based on the refund rates billed to Atmos customers during the 2002-2003 ACA audit period. Based on these calculations, the Staff believes that the May 2003 refund balance should include a $7,962 under-recovery balance, a refund balance due the Company. According to tariff sheet No. 5d, the balance should be retained in the refund account until such time as a subsequent refund is made. Since no additional refunds were received in the 2002-2003 ACA period, the Company did not establish (nor was it required to file) a refund factor in November 2003. Staff believes that the May 2003 refund balance carried forward to the subsequent ACA audit period should include a $7,962 under-recovery balance ($7,475 under-recovery balance filed by the Company). This shall be held in the refund account until such time as additional refunds are received and a refund factor is established.

TENASKA MARKETING VENTURES

Atmos indicated, in response to DR No. 111, that daily gas used to inject into storage does not supply Atmos customers in Missouri. Upon review of the purchases in February 2003, Staff found that the Company had allocated such gas to Kansas and Missouri. Staff's calculation excludes daily purchases made by the Company during February 2003 that were allocated to Missouri. In doing so, daily purchases of $87,260 were removed from the total purchased gas costs of $1,198,820 during February 2003. The balance, or $1,111,560, was multiplied by 3.0594% to determine the appropriate gas purchases allocated to Missouri, which is $34,007. Staff believes that a gas cost reduction to Missouri should be made totaling $2,670 ($34,007 per Staff - $36,677 per filing).

SUMMARY – AREA G (FORMERLY GREELEY GAS)

The Staff has addressed the following concerns regarding Case No. GR-2003-0219 for Greeley Gas Company's Southwest Missouri District and proposes the following:

1. That Greeley adopt the Staff-adjusted WNG storage, WNG transportation, and gas demand charges, which will increase the cost of gas by $1,806 and decrease the commodity cost of gas purchases, transportation, and storage injection fees by $246. This results in a net gas cost increase of $1,560.
2. That Greeley include Staff's ($10,931) storage adjustment (2001-2002 ACA) in the Company's November 2004 PGA filing.
3. That Greeley establishes a refund under-recovery balance of $7,962 as of May 2003.
4. That Greeley reduces gas costs by $2,670 to eliminate daily gas purchases allocated to Missouri during the month of February 2003.
5. Although there is no adjustment related to reliability or supply planning, Staff has concerns in these areas. These concerns are documented in the Reliability Analysis section of this recommendation.

RECOMMENDATION – AREA G (FORMERLY GREELEY GAS)

The Staff recommends the Commission issue an order requiring Atmos to:

1. Adjust the ACA account balances in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under recovered ACA, Transition Cost and Refund balances in the "Staff Recommended" column of the table below:

TABLE 1

(GREELEY) Area G Description	Company Ending Balances per Filing 2002-03	Staff Adjustments	Staff Recommended Ending Balances 2002-03
ACA Balance	($107,065) A	($7,261) B	($114,326) D
Revenue Recovery	($131,816)	$0	($131,816)
Purchased Gas Cost	$240,239	($1,110) C	$239,129
Total (Over)/Under Recovery	$1,358	($8,371)	($7,013)
Refund	$ 7,475	$487	$7,962

A=($148,253) + $41,188 = ($107,065)
B=$2,419 + ($10,931) + $1,251=($7,261) GR-2003-0150 adjustments not included in GR-2003-0219 filing
C=$1,560+ ($2,670)=($1,110) adjustments for Case GR-2003-0219
D=Per Stipulation & Agreement GR-2003-0150

2. Provide a detailed response appropriately addressing the concerns expressed by Staff in the Reliability Analysis Summary section for each service area by March 9, 2005.

3. File a written response to the recommendations included herein within 30 days.

AREAS P AND U (FORMERLY UNITED CITIES GAS)

BEGINNING BALANCES MAY 31, 2002

In its Order Approving Unanimous Stipulation and Agreement effective April 4, 2004, the Public Service Commission established the May 31, 2002, ending balances for Atmos Energy Corp. (Case No. GR-2003-0150). The established balances agreed with Tables 3-1 and 3-2 of the Unanimous Stipulation and Agreement that the parties filed on February 26, 2004. However, Atmos' support for the 2002-2003 ACA filing showed different balances for May 31, 2002. The reason is that the 2002-2003 Purchased Gas Adjustment/Actual Cost Adjustment (PGA/ACA) filing was made on October 20, 2003, while the prior year amounts were still in dispute until February 26, 2004, (Unanimous Stipulation and Agreement file date). Staff, therefore, proposes adjustments to the May 31, 2002 ACA balances as shown in the following table:

	5/31/02 Beginning Balance per Filing for 2002-03	**Staff Adjustments**	**Unanimous Stipulation & Agreement Ending Balances for 2001-02**
Consolidated District: Demand ACA	($803,792)	($728)	($804,520)
Commodity ACA	($778,692)	$2,465	($776,227)
Neelyville District: Demand ACA	$573	$0	$573
Commodity ACA	($53,882)	($ 73)	($53,955)

AGENCY FEES

Atmos' contract with Laclede Energy Resources, Inc. includes services provided to the Neelyville District under an agency agreement. As compensation for services provided, Atmos pays a monthly agency fee to Laclede Energy Resources that is based on volumes delivered to Atmos.

The PGA/ACA sections of the Company's tariffs do not allow for recovery of fees related to agency agreements. The Staff views agency fees as more closely related to consulting services that are typically reviewed in a general rate case. As a result, Staff proposes an adjustment to reduce the Neelyville District gas costs by $1,009.

DEFERRED CARRYING COST BALANCE

The Deferred Carrying Cost Balance (DCCB) is the cumulative under or over-recovery of gas costs at the end of each month for each annual ACA period. Each month, carrying costs at a simple interest rate equal to the prime rate minus 1% are credited to customers for any over-recovery of gas costs, or credited to the Company for any under-recovery of gas costs when the DCCB exceeds an amount equal to 10% of the Company's average annual level of gas costs for the three most recent ACA periods. Any DCCB amount existing at the end of the Company's ACA period, including interest, is included in the determination of the new ACA factor to be effective in the scheduled winter PGA filing.

In its 2002-2003 PGA/ACA filing, the Company miscalculated the carrying costs applied to the DCCB in the Neelyville and Consolidated Districts. Therefore, the Staff proposes to decrease the

Consolidated District demand over-recovery by $787, decrease the Consolidated District commodity over-recovery by $5,854, decrease the Neelyville District demand over-recovery by $54, and decrease the Neelyville District commodity over-recovery by $666.

SUMMARY – AREAS P AND U (FORMERLY UNITED CITIES)

The Staff has addressed the following concerns regarding Case No. GR-2003-0219 for Atmos Areas P and U (formerly United Cities Gas) and proposes the following:

1. That Atmos adjust its beginning balances from May 31, 2002, to agree with the balances from the Unanimous Stipulation and Agreement that closed prior year Case No. GR-2003-0150. The related adjustments to the May 31, 2003, ending balances for ACA period 2002-2003 are the following:
   a. Increase the Consolidated Demand ACA over-recovered balance by $728.
   b. Decrease the Consolidated Commodity ACA over-recovered balance by $2,465.
   c. Increase the Neelyville Commodity ACA over-recovered balance by $73.

2. That Atmos reduce gas costs of the Neelyville District to eliminate agency fees in the amount of $1,009.

3. That Atmos adjust the carrying charges on the Deferred Carrying Cost Balance to agree with the Staff's computation, as follows:
   a. Decrease the Consolidated demand ACA over-recovered balance by $787.
   b. Decrease the Consolidated commodity ACA over-recovered balance by $5,854.
   c. Decrease the Neelyville demand ACA over-recovered balance by $54.
   d. Decrease the Neelyville commodity ACA over-recovered balance by $666.

4. Although there is no adjustment related to reliability or supply planning, Staff has concerns in these areas. These concerns are documented in the Reliability Analysis section of this recommendation.

RECOMMENDATION – AREAS P AND U (FORMERLY UNITED CITIES)

The Staff recommends the Commission issue an order requiring Atmos to:

1. Adjust the ACA account balances in its next ACA filing to reflect the following Staff adjustments and to reflect the <u>(over)/under</u>-recovered ACA, Transition Cost and Refund balances in the "Staff Recommended" column of the following table:

TABLE 2

(UNITED CITIES) Areas P& U	**Ending Balances Due From Or (To) Customers per Filing**	**Notes Ref.**	**Staff Adjustments**	**Staff Recommended Balances Due From Or (To) Customers**
Consolidated District: Demand ACA	($348,004)	(A) (B)	($728) $787	($347,945)
Commodity ACA	($659,135)	(A) (B)	$2,465 $ 5,854	($650,816)
Refund	($8,177)			($8,177)
Neelyville District: Demand ACA	($7,007)	(B)	$54	($6,953)
Commodity ACA	($38,033)	(A) (B) (C)	($73) $666 ($1,009)	($38,449)
Refund	($347)			($347)

Notes to Staff Adjustments:
(A) Beginning balances May 31, 2002 adjusted to prior year ending balances
(B) DCCB carrying costs adjustment
(C) Eliminate agency fees from Neelyville district gas costs

2. Provide a detailed response appropriately addressing the concerns expressed by Staff in the Reliability Analysis Summary section for each service area by March 9, 2005.

3. File a written response to the recommendations included herein within 30 days.

AREAS B, K, AND S (FORMERLY ANG)

ACA BALANCE

In the Unanimous Stipulation and Agreement approved on May 13, 2003, the Public Service Commission established the August 31, 2002 ending balances for Associated Natural Gas (Case No. GR-2003-0150). However, the Company's support for the 2002-2003 ACA filing showed different balances for August 31, 2002. The reason is that the 2002-2003 PGA/ACA filing was made on October 20, 2003, while the prior year amounts were still in dispute until February 26, 2004, (Unanimous Stipulation and Agreement file date) and ultimately revised effective August 1, 2004. Staff, therefore, proposes adjustments to the August 31, 2002 ACA balances as shown in the table below:

ANG Areas B, K, and S	8/31/02 Beginning Balance per Filing for 2002-03	Staff Adjustments	Unanimous Stipulation & Agreement Ending Balances for 2001-02
SEMO District:			
Firm ACA	($2,198,836)	$110,237	($2,088,599)
Interruptible ACA	($390,450)	$34,659	($ 355,791)
Firm Refund	$15,101	($18,775)	($3,674)
Interruptible Refund	$2,238	($3,164)	($926)
Transition Cost	($17,252)	$0	($17,252)
Kirksville District:			
Firm ACA	($312,220)	($33,878)	($346,098)
Interruptible ACA	($158,776)	($2,477)	($161,253)
Firm Refund	$26,365	($38,442)	($12,077)
Interruptible Refund	$7,354	($13,053)	($5,699)
Transition Cost	$0	$0	$0
Butler District:			
Firm ACA	($198,247)	($18,962)	($217,209) (A)
Interruptible ACA	($15,948)	($2,338)	($18,286) (A)
Firm Refund	$ 2,330	$1,090	$ 3,420
Interruptible Refund	$1,165	($12,397)	($11,232)

A) Per amended Stipulation & Agreement effective August 1, 2004

DCCB ADJUSTMENT

The Company's tariffs specify that "DCCB interest must be calculated on a month-ending cumulative basis for each month of the ACA audit period. As a result, when the cumulative balance exceeds an amount equal to 10% of the average annual level of gas costs for the three most recent ACA periods, carrying costs are calculated."

The Company calculated an over-recovery of the DCCB balance during the 2002-2003 ACA audit period for the Kirksville firm customers. Staff believes that the Company miscalculated the carrying cost (interest) calculation of the DCCB balance during the months of January 2003 to August 2003. Staff believes the over-collected balance should be reduced from $16,240 to $4,067, a $12,173 increase in gas costs for Kirksville firm customers.

REFUNDS

Staff's review of the Company's refund activity for the SEMO and Kirksville districts, as well as the Butler interruptible district, indicated that the Company had an over-collected balance in its refund account for the twelve months ended August 31, 2003. This means that the Company's collection of refunds exceeded the refund balance due the Company (an over-collection), therefore a balance is due the customer. During the 2002-2003 ACA period, the Company did not carry forward the proper balance in its refund accounts. As described in the ACA Balance section of Staff's recommendation, the proper refund balances were not agreed upon until the Unanimous Stipulation and Agreement was filed on February 26, 2004, which is after the October 20, 2003 filing date. Staff revised the refund balances for all three districts. This consists primarily of the adjustments contained in the ACA Balance section (Staff's 2002-2003 refund calculation includes the refund balances agreed to in the February 26, 2004 Unanimous Stipulation and Agreement). Staff's review also showed that the sales volumes used to calculate the refund factor was the same for the SEMO and Kirksville districts on Exhibit III of the filing. Staff recommends that the Company use appropriate sales volumes in developing the refund factor for each district.

Staff believes that the Company should adopt the refund balances proposed by Staff for the period ended August 31, 2003. The Staff-adjusted refund balances are included in the table contained in the "Recommendations" section of this ACA recommendation.

TRANSITION COSTS

During the 2001-2002 ACA period, Atmos had transition cost (TC) credits of $41,584 as of August 2002 on the SEMO district. Atmos indicated that it would write off (eliminate) the transportation portion of the transition cost recovery of $17,252. Staff included the $17,252 credit in the Transportation TC recovery account. The Company properly carried forward the TC recovery balance of $17,252 in the 2002-2003 ACA filing. During the 2002-2003 ACA period, the Company accumulated a Transportation TC credit of $7,149 as of August 31, 2003. The Company intends to write off the TC credit of $7,149. According to the Company's 61st tariff sheet, revised sheet 16I: "In the case of transportation where the Regular TC Recovery factor shall be activated to reduce the net balance to less than +/-$1,000 at which point the remaining balance shall be written off." The balance was greater than $1,000; therefore Staff believes the balance can't be written off. Staff believes that the $7,149 credit should be carried forward and included in the calculation of the SEMO Transportation TC account (in the same manner that the $17,252 TC credit was carried forward to the 2002-2003 ACA).

OVER-RUN GAS

Staff's review of the Company's storage and transportation activity on ANR pipeline (Kirksville district) indicates that over-run charges occurred during the period of October 2002 to April 2003 because the Company did not meet the requirements of ANR's tolerance level. The Staff believes that Atmos customers should not be responsible for over-run charges caused by the Company's transport customers and its inability to take corrective action. Staff proposes that gas costs on the Kirksville district be reduced for the Company's firm customers by $9,017 and interruptible customers by $1,000, for a total reduction of $10,017.

LOUISIANA PROPERTY TAX

Louisiana property tax is levied on the Mississippi River Transmission storage facility in Louisiana. The storage facility serves customers in Missouri under Contract No. FSS-514. This charge is included on the Centerpoint Energy invoice that in turn charges Atmos Energy. During January 2003, a property tax of $2,219 was included as a separate line item on the Centerpoint Energy invoice. Staff believes that this charge may be more appropriately included in base rates but should not be included in PGA recovery. The Staff, therefore, believes that the cost of gas for the SEMO firm customers should be reduced by $2,219.

SUMMARY – AREAS B, K AND S (FORMERLY ANG)

1. Staff proposes the following gas cost adjustments:
   ACA Balance – SEMO $110,237 firm sales and $34,659 interruptible sales.
   Kirksville ($33,878) firm sales and ($2,477) interruptible sales.
   Butler ($18,962) firm sales and ($2,338) interruptible sales.
   DCCB Adjustment – Kirksville $12,173 firm sales.
   Refunds - Adjustments included in the "Recommendation" section.
   Transition Cost – SEMO ($7,149) Transportation balance in TC account.
   Over-Run Gas – Kirksville ($9,017) firm sales and ($1,000) interruptible sales.
   Louisiana Property Tax- SEMO ($2,219) firm sales.

2. Staff has concerns related to the Company's reliability analysis. These concerns are documented in the Reliability Analysis section of this recommendation.

RECOMMENDATION – AREAS B, K AND S (FORMERLY ANG)

The Staff recommends the Commission issue an order requiring Atmos to:

1. Adjust the ACA account balances in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under-recovered ACA, Transition Cost and Refund balances in the "Staff Recommended" column of the table below:

TABLE 3

(ANG) Areas B, K, and S	8-31-03 ending Balances per Filing	Staff Adjustments	8-31-03 ending Balances Recommended By Staff
SEMO district (area S) Firm ACA	($1,230,220)	($2,219) (B) $110,237 (A)	($1,122,202)
Interruptible ACA	$99,896	$34,659 (A)	$134,555
Firm Refund-Exh III	($ 66,227)	($21,798) (1)	($88,025)
Interruptible Refund-Exh III	($ 1,330)	($3,392) (1)	($4,722)
Transportation Transition cost	$0	($7,149)	($7,149)
Kirksville district (area K): Firm ACA	($ 387,312)	$3,156 (C) ($33,878) (A)	($418,034)
Interruptible ACA	($ 147,091)	($1,000) (D) ($2,477) (A)	($150,568)
Firm Refund-Exh III	($ 3,162)	($40,959) (1)	($44,121)
Interruptible Refund-Exh III	$ 1,035	($13,851) (1)	($12,816)
Transportation Transition cost	$0	($707)	($707)
Butler district (area B): Firm ACA	$ 71,834	($18,962) (A)	$52,872
Interruptible ACA	$ 6,545	($2,338) (A)	$4,207
Firm Refund-Exh III	$117	$1,404 (1)	$1,521
Interruptible Refund-Exh III	$ 207	($13,481) (1)	($13,274)

1) Includes Staff's adjustments in ACA balance section + activity during current ACA period.
A) Beginning balances 8-31-02 adjusted to prior year ending balances- (See ACA balance section)
B) Louisiana Property Tax
C) $12,173 DCCB + ($9,017) Over-run = $3,156
D) Over-run gas

2. Provide a detailed response appropriately addressing the concerns expressed by Staff in the Reliability Analysis Summary section for each service area by March 9, 2005.

3. File a written response to the recommendations included herein within 30 days.