BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Atmos Energy Corporation's Purchased Gas Adjustment (PGA) Factors to be Audited in its 2003-2004 Actual Cost Adjustment	)))	Case No. GR-2004-0479

STAFF RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states as follows:

1. Atmos Energy Corporation ("Atmos") initiated the Actual Cost Adjustment (”ACA”) review process in this case by its tariff filing on October 15, 2004. This case considers Atmos' natural gas costs for the 2003/2004 ACA period.

2. The Staff has completed its audit of Atmos' records, and has formulated its recommendations on Atmos' gas planning and purchasing practices. Attached as Appendix A is the Staff's Memorandum setting forth those recommendations.

3. The Staff requests that the Commission direct Atmos to respond to these recommendations within thirty days.

WHEREFORE, Staff respectfully requests that the Commission to consider its recommendations and issue an Order directing Atmos to respond within thirty days of the issue date of that Order.

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Respectfully submitted,

DANA K. JOYCE
General Counsel

/s/ Dennis L. Frey
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 23rd day of November 2005.

/s/ Dennis L. Frey

MEMORANDUM

TO:	Missouri Public Service Commission Official Case File, Case No. GR-2004-0479, Atmos Energy Corporation
FROM:	David M. Sommerer, Manager-Procurement Analysis Department Annell Bailey, CPA, Regulatory Auditor-Procurement Analysis Department Lesa A. Jenkins, PE, Regulatory Engineer-Procurement Analysis Department Kwang Choe, PhD, Regulatory Economist-Procurement Analysis Department

/s/ Dave Sommerer 11/21/05 — Project Coordinator / Date

/s/ Thomas R. Schwarz 11/21/05 — General Counsel's Office / Date

SUBJECT:	Staff's Recommendation in Atmos Energy Corporation's 2003-2004 Actual Cost Adjustment Filing
DATE:	November 21, 2005

The Procurement Analysis Department (Staff) has reviewed Atmos Energy Corporation's (Atmos or Company) 2003-2004 Actual Cost Adjustment (ACA) filings for the former territories of Associated Natural Gas (Areas B, K and S), United Cities Gas (Areas P and U) and Greeley Gas (Area G). These filings were made on October 14, 2004, for all areas. Substitute filings were made for Areas B, K and S on October 20, 2004, and for Area G on October 21, 2004. These filings were docketed as Case No. GR-2004-0479. The 2003-2004 ACA filing rates became effective on November 1, 2004.

Staff's review consisted of an audit and evaluation of the billed revenues and gas costs for the period of September 1, 2003, to August 31, 2004, for Areas B, K and S, and June 1, 2003, to May 31, 2004, 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 period.

Areas B, K and S are separated into the following districts: Southeast Missouri (SEMO or Area S), Kirksville (Area K), and Butler (Area B). The SEMO, Kirksville and Butler districts serve approximately 35,800 customers, 6,000 customers and 3,800 customers, respectively. For purposes of the reliability review, Areas B, K and S are separated into the following service areas: Butler, served by Panhandle Eastern Pipe Line Co., LLC (PEPL); Kirksville, served by ANR Pipeline Co. (ANR); Jackson, served by Natural Gas Pipeline Co. of America (NGPL); Piedmont, served by

Mississippi River Transmission Corp. (MRT); and the Southeast Missouri Integrated system, served by Texas Eastern Transmission, LP (TETCO) and Ozark Gas Transmission, LLC.

Areas P and U 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, served by Panhandle Eastern Pipe Line Co., LLC (PEPL), serves approximately 14,200 customers in the former districts of Hannibal/Canton, Bowling Green and Palmyra. The Neelyville District serves approximately 500 customers, in and around Neelyville, Naylor and Qulin, served by Natural Gas Pipeline Co. of America (NGPL) and Texas Eastern Transmission, LP (TETCO).

Area G serves approximately 500 customers, in and around Rich Hill and Hume, served by Southern Star Central Gas Pipeline, Inc. (SSC).

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

1) Atmos Energy Corporation, General;
2) Areas B, K, and S (formerly Associated Natural Gas);
3) Areas P and U (formerly United Cities Gas); and
4) Area G (formerly Greeley Gas).

SECTION 1. ATMOS ENERGY CORPORATION, GENERAL

CARRYING COSTS ON UNDER OR OVER-RECOVERIES OF PGA/ACA COSTS

In compliance with an experimental tariff revision, effective September 19, 2003, Atmos changed its method of computing carrying costs on the cumulative under or over-recovery of gas costs. Using the new method, carrying costs are computed each month based on the average of the accumulated monthly over- or under-recoveries of all PGA related costs – the entire ACA balance, in effect. (Using the previous method, carrying costs were applied only in months when the net Deferred Carrying Cost Balance (DCCB), exceeded an amount equal to 10% of the Company's average annual level of gas costs for the three most recent ACA periods.) Under both methods, the carrying costs are credited to customers for any over-recovery, or credited to the Company for any under-recovery. The interest rate is 1% lower under the revised tariff, now at the prime rate minus 2%. (The previous tariff rate on the DCCB was the prime rate minus 1%). This tariff revision was made during the 2003-2004 ACA period, so each method was used for part of the year.

The new carrying costs determination is experimental, and shall expire on July 1, 2006, unless an agreement is reached by the parties and approved by the Commission.

REFUNDS

Under a second experimental tariff revision also effective September 19, 2003, Atmos transferred all accumulated Refunds balances into the related ACA accounts, and reduced the Refunds balances to zero. Therefore, all Staff adjustments to Refunds for the 2003-2004 ACA period are applied to the ACA accounts. The revised tariff states, in part:

> Any refunds the Company receives in connection with natural gas services purchased, together with any interest included in such refunds, will be refunded to the Company's applicable customers unless otherwise ordered by the Commission. Such refunds shall be credited to the ACA account in the month received and shall receive interest as part of the overall ACA interest calculation.
>
> The crediting of refunds to the ACA account is experimental, and shall expire on July 1, 2006, unless an agreement is reached by the parties and approved by the Commission, or approved by an Order of the Commission, before July 1, 2006….

HEDGING

Atmos Energy Company implemented a hedging plan within the Company's Regulated Utility Operations Risk Management Control Guidelines that were effective during the winter 2003-2004. Based on expected requirements for Missouri for the winter 2003-2004, the Company ** ________ ________________ **, served the Company's hedging purpose to stabilize gas prices within a reasonable range. The goal is to obtain ** ________ ** of its expected normalized purchased gas requirements ** ________________ ** during the winter months (November 2003 through March 2004). It actually turned out that the ** ________________ **, for November 2003 through March 2004. ** ________________ **.

Given the nature of the hedging strategy adopted by the Company, utilizing various financial instruments, the Staff recommends that the Company should carefully continue to monitor the market movements and look into the possibility of expanding its gas portfolio that includes physical hedges and/or hedges that more closely track physical price risk in addition to storage to ensure successful and prudent hedging. The Company needs to evaluate the relationship between where it buys its physical supply versus where it is places hedges. There should be a strong relationship between the physical price risk and the hedges used to mitigate that price risk. In addition, the Company should consider looking at longer term time horizons for establishing hedges.

RELIABILITY ANALYSES AND GAS SUPPLY PLANNING

The Company is responsible for operating its system in a safe and adequate manner. This objective requires the Company to conduct long-range supply planning in a reasonable manner and make prudent decisions from the information generated from this planning activity. A component of the ACA audit process is to examine the reliability of the local distribution company's (LDC's) gas supply, transportation and storage capabilities. For this analysis, Staff reviews the LDC's plans and decisions regarding estimated peak-day requirements and the capacity levels to meet those requirements, peak-day reserve margin and the underlying rationale for the resultant reserve margin, and natural gas supply plans for various weather conditions.

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 specific pipelines and the capacity requirements must be evaluated for each pipeline.

Staff's review of the status of the reliability for the Atmos service areas produced the following comments and concerns.

1. Area G - Data Concerns and Impact on Peak Day Estimate and Estimates of Monthly Requirements

   Staff has communicated concerns regarding usage data for the Greeley system. After discussions with Atmos, ** ____
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   ______________________________ **. Data from this new meter would be available for review following the 2004-2005 winter and thus could be used for estimates for the 2005-2006 peak day. Staff will look for the revision in the 2005-2006 ACA review.

2. Area U - Consolidated Propane Facility

The propane facility for the Consolidated service areas was only filled to ** ____ ** at the start of the winter season. Atmos relies on this propane facility for its supply plans for extremely cold days. In order to rely on this facility as part of the peak day supply plans, it must be filled. Because of the supply contract in place for the winter of 2003-2004, the lower propane inventory did not cause a potential reliability problem. Additionally, Atmos could not provide monthly reports for the propane injections and withdrawals for this ACA. However, Atmos states that beginning around August 2004, it will have monthly details of the propane injections, withdrawals, and ending balance and will provide this information in future ACA reviews. Staff will continue to monitor this in the 2004-2005 ACA.

3. Area S - SEMO-Integrated Supply Plans

In the 2002-2003 ACA, Case No. GR-2003-0219, Staff expressed concerns regarding the Atmos estimates of normal requirements and decisions related to storage for the Southeast Missouri Integrated service area. Staff continues to have concerns for the 2003-2004 ACA relating to the Atmos estimates of normal requirements and its supply plans (monthly nominations and storage withdrawals). No dollar adjustments are proposed for this ACA period. A summary of these concerns is as follows.

The Atmos planned monthly requirements, per the response to Data Request Number 56 (DR56) do not match the usage estimated from the Atmos regression analysis. ** ____
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** ____ ** is of concern to Staff. The concern exists even when considering adjustments necessary because of variations due to actual weather.

SEMO Integrated Storage Balance	Actual % of MSQ	Planned % of MSQ
Oct 2003	95.7%	90% - 95%
Nov 2003	90.4%	85.5%
Dec 2003	82.8%	61.8%
Jan 2004	68.8%	33.3%
Feb 2004	55.1%	9.5%
Mar 2004	41.6%	0.0 – 10%
Apr 2004	45.6%	-

Atmos explains that its forecasting has improved since hiring a fulltime forecasting professional in October 2003. Atmos states its 2004-2005 ACA period is somewhat better than the prior periods, and more improvements are forthcoming. Staff has communicated concerns with Atmos and will continue to monitor in the 2004-2005 ACA.

4. Variation from Normal Weather Gas Supply Plans – All Service Areas

Atmos does not properly consider deviations from normal weather. Staff's concern is that weather can vary greatly from normal, much more than the plus or minus 10% that Atmos says it considers. Although the winters in each of the Atmos service areas are not the same, each can have weather that is substantially different from normal. For example, a review of Kansas City International Airport (KCI) data for 1971-1972 through 2003-2004 shows the following:

	Nov	Dec	Jan	Feb	Mar
Maximum HDD Coldest Occurrence	861.0	1,590.3	1,612.0	1,257.2	883.5
Year	1976	1983	1979	1978	1984
% of Normal	**129%**	**152%**	**136%**	**139%**	**134%**
1971-2000 Normal HDD	669.2	1,046.5	1,181.3	903.9	660.2
Minimum HDD Warmest Occurrence	397.1	859.5	840.1	629.3	511.5
Year	1999	2001	1990	1976	1977
% of Normal	**59%**	**82%**	**71%**	**70%**	**77%**

A review of the winter season November through March data for KCI reveals that the warmest season (1999-2000) is 80.5% of a normal season and the coldest season (2000-2001) is 119.4% of normal.

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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 service areas. It states that for a normal winter, a fixed quantity of natural gas (base load gas), at the first of each month is nominated and the balance is from a combination of storage withdrawals and incremental gas supply. During a colder than normal winter, it 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, it states that base load can be reduced along with storage withdrawals. (DR95)

In the Atmos response to the 2002-2003 ACA recommendation, Atmos states that it never knows when a peak day may occur, and must take corrective action in extreme circumstances. It states that it has storage guidelines, but that it attempts, where possible, to maintain flexibility to handle an extreme condition. It states that it has to make the best decision for its customers given the market forces at that point in time. It states that if the early winter months are mild, the Company will attempt to lower the amount of gas nominated at the first of the month (base load) so that more gas will be withdrawn to meet the needs of the system.

The Atmos plans state that if storage is being utilized "substantially more than planned" incremental purchases are made to limit monthly withdrawals. If first-of-month (FOM) nominations/purchases are at levels resulting in storage withdrawals to be "significantly below the planned level," in other words less than planned, the Company will use current and forecasted weather along with an existing pricing review, to make a "prudent decision" as to whether FOM supply should be turned back during the current month or to reduce any subsequent month(s) purchase. (Source: DR94, Gas Supply Information and Procedures Manual, Procedure for Purchasing and Nominating Natural Gas, with an effective date of April 1, 2003).

Targeted storage balances were different in the various Atmos responses.

a. For all service areas, Atmos states that it strives to have storage 95% full at the start of the winter season and 5% full at the end of the winter season, unless otherwise required by pipelines (DR93).
b. Atmos' plan is slightly different in its response to the reliability section of the 2002-2003 Staff ACA recommendation, Case No. GR-2003-0219. In that response Atmos states that it plans to withdraw 100% of the planned beginning winter balance which is 95% of the maximum storage quantity (MSQ).
c. When asked about these variations in storage plans, Atmos explained another, slightly different storage target (10/24/05 email response from Mark Martin). It states that the target is to have storage at 90 to 95% by November 1. It states that the 90% represents a minimum target and the 95%

> represents a maximum target. It states that these targets would yield a sufficient cushion in case November is warm. It also states that it targets storage balances to be 5% to 10% by April 1. The 5% would represent a minimum target and the 10% would represent a maximum target. It states that these targets would yield a sufficient cushion in case of a late season cold snap. Atmos states that its goal is to cycle as much storage as possible.

Atmos states that it targets storage volumes of 0% to 10% at the end of March each year. ** ____ **.

In general, Staff does not disagree with the Atmos stated need for flexibility to manage storage appropriately. However, if extreme weather occurs in any month, what storage parameters other than the planned 90% to 95% full at the beginning of the winter season and 0% to 10% full at the end of the winter season, should guide Atmos purchases? ** ____ ** To prudently plan for natural gas supplies for varying winter conditions, Staff believes that Atmos must evaluate how storage will be used in a warmer or colder winter and whether warm or cold weather early or late in the winter season causes more difficulty for supply planning in each service area. ** ____ **.

5. Capacity Release – All Service Areas

In response to the 2002-2003 ACA recommendation, Case No. GR-2003-0219, Atmos agreed to submit its capacity release procedures on or before 5/31/05 and the procedures were received 5/31/05. These procedures state that Atmos will target the April through October period to take advantage of capacity release, as the potential for a peak day is remote, but will also attempt to release capacity in the winter months if a contract creates a high reserve margin. Atmos states that the majority of releases will be done on a recallable basis to protect the Company and its customers, but for areas with extremely high reserve margins, Atmos will entertain releasing capacity on a non-recallable basis. The procedure also includes documentation requirements.

For warmer months of April through October, it is not clear why Atmos would need to retain the flexibility to recall all of its contract capacity. Staff requests that the Atmos procedure clarify this requirement.

Atmos provided documentation showing that it released capacity for the 2003-2004 ACA, but the documentation does not provide a summary of whether these releases were recallable or non-recallable, as required by the Atmos capacity release procedures. This should be provided for transactions in the 2004-2005 ACA. Additionally, Atmos does not list the revenues generated for each transaction. Although the Atmos capacity release procedures do not require that Atmos summarize the revenues generated each month from each capacity release transaction, Staff recommends that this be added to its procedures so that Atmos can track this information from year to year.

6. School Aggregation

Atmos excludes basic transportation and interruptible customer requirements in its estimates of peak day requirements because there is no obligation to provide back-up gas supplies (DR81). However, requirements for School Aggregation Service, a similar service to basic transportation, are included by Atmos in both the pipeline capacity and the peak day requirements, even though schools in the school aggregation service obtain capacity through a capacity release and are responsible for their own supply.

Atmos states that it does not use any specific algorithm for estimating school usage for the school aggregation program, but estimates the reliable capacity needed for a peak day. However, the supporting documentation was not provided. (Case No. GR-2004-0479, DR73 and Case No. GR-2003-0219, DR116) Atmos clarified that the data appears to be historical monthly volumes divided by the number of days in the month (10/27/05 email, 3:37 p.m.). This is not a peak day estimate, but a simple average of monthly requirements. Thus, schools in the School Aggregation Program are acquiring capacity to meet average monthly requirements only, not quantities needed for a potential peak cold day. ** ____________

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SUMMARY – ATMOS ENERGY CORPORATION, GENERAL

The Staff has addressed the following concerns regarding Case No. GR-2004-0479 for Atmos Energy Corporation, General:

1. Staff reviewed Atmos' hedging plan that includes financial hedging instruments such as futures contracts and options, within the Company's Regulated Utility Operations Risk Management Control Guidelines. Staff also conducted a compliance review of Company's hedging activities.

2. Although there is no adjustment related to reliability or supply planning, Staff has concerns in these areas. These concerns are documented in the Reliability Analyses and Gas Supply Planning section of this recommendation.

RECOMMENDATION – ATMOS ENERGY CORPORATION, GENERAL

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

1. Carefully monitor the market movements and look into the possibility of expanding the Company's gas portfolio that includes physical hedges other than storage, in order to ensure successful and prudent hedging, in conjunction with reviewing the correlation between financial hedges and physical purchases. The Company should also review hedging horizons longer than the existing practice (apparently, a 6 month time period, which typically starts in June prior to whatever winter is being hedged).

2. Provide a detailed response appropriately addressing the concerns expressed by Staff in the Reliability Analysis Summary section for each service area by January 13, 2006.

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

<u>SECTION 2. AREAS B, K, AND S (FORMERLY ANG)</u>

BEGINNING BALANCES AUGUST 31, 2003

Ending balances for the prior year ACA Case No. GR-2003-0219 were established in the Unanimous Stipulation and Agreement that the parties filed on February 22, 2005. However, the Company's support for the 2003-2004 ACA filing showed the beginning balances to be different amounts. The reason is that the 2003-2004 PGA/ACA filings were made in October 2004, while the prior year amounts were still in dispute until February 22, 2005, (Unanimous Stipulation and Agreement file date). Staff, therefore, proposes adjustments to the beginning ACA balances as shown in the table below:

Areas B, K & S	8/31/03 Beginning Balances per Filing for 2003-04	Staff Adjustments	Unanimous Stipulation & Agreement Ending Balances for 2002-03
SEMO District (Area S):			
Firm ACA	($1,053,126)	($67,967)	($1,121,093)
Interruptible ACA	$140,734	($6,179)	$134,555
Firm Refund	($87,919)	($106)	($88,025)
Interruptible Refund	($4,749)	$27	($4,722)
Transition Cost	($7,149)	$0	($7,149)
Kirksville District (Area K):			
Firm ACA	($430,359)	$17,048	($413,311)
Interruptible ACA	($151,648)	$1,604	($150,044)
Firm Refund	($43,964)	($157)	($44,121)
Interruptible Refund	($12,763)	($53)	($12,816)
Transition Cost	$0	$0	$0
Butler District (Area B):			
Firm ACA	$52,871	$1	$52,872
Interruptible ACA	$4,206	$1	$4,207
Firm Refund	$1,416	$105	$1,521
Interruptible Refund	($13,237)	($37)	($13,274)
Transition Cost	$0	$0	$0

CARRYING COSTS ON UNDER- OR OVER-RECOVERIES OF PGA/ACA COSTS

In compliance with an experimental tariff revision, effective September 19, 2003, Atmos changed its method of computing carrying costs on the cumulative under- or over-recovery of gas costs. Using the new method, carrying costs are computed each month based on the average of the accumulated monthly over- or under-recoveries of all PGA related costs – the entire ACA balance, in effect. (Using the previous method, carrying costs were applied only in months when the net Deferrred Carrying Cost Balance (DCCB), exceeded an amount equal to 10% of the Company's average annual level of gas costs for the three most recent ACA periods.) The carrying costs are credited to customers for any over-recovery, or credited to the Company for any under-recovery. The interest rate is 1% lower under the revised tariff, now at the prime rate minus 2%. (The previous tariff rate on the DCCB was the prime rate minus 1 %.) The new carrying costs determination is experimental, and shall expire on July 1, 2006, unless an agreement is reached by the parties and approved by the Commission. For Areas B, K and S, the Company used the new method for all twelve months of the ACA period beginning with September 2003 and ending with August 2004.

In its 2003-2004 PGA/ACA filing, for Areas B, K and S, the Company miscalculated the carrying costs on the under- and over-recoveries of PGA/ACA costs. Also, for Area B firm and Area K interruptible ACA balances, the Company calculated carrying costs, but neglected to include them in the purchased gas costs in the ACA filing. Therefore, the Staff proposes that Atmos adjust the carrying costs to agree with the Staff's computations, as follows:

a. Decrease the Area S firm ACA over-recovered balance by $4,518.
b. Increase the Area S interruptible ACA under-recovered balance by $582.
c. Decrease the Area K firm ACA over-recovered balance by $403.
d. Increase the Area K interruptible ACA over-recovered balance by $3,458.
e. Increase the Area B firm ACA over-recovered balance by $1,914.
f. Decrease the Area B interruptible ACA over-recovered balance by $71.

OVER-RUN GAS

Staff's review of the Company's storage and transportation activity on ANR Pipeline (Area K - Kirksville) indicates that over-run charges occurred during the period of October 2003 to February 2004 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 inability to take corrective action. Staff proposes that gas costs on the Kirksville district be reduced for the Company's firm customers by $3,494 and interruptible customers by $380, for a total reduction of $3,874.

STORAGE

The Company's storage inventory spreadsheet for Kirksville's ANR Firm Storage Service #30000 had an error in the formula that the Company was using to compute the cost of withdrawals. As a result, the Company overstated the storage withdrawal costs in the Firm ACA account for Kirksville, Area K. Staff corrected the formula and recomputed the storage withdrawal cost. Staff proposes that Area K firm ACA gas costs be reduced by $46,347.

UNAUTHORIZED USE CHARGES

The Company was billing Unauthorized Use Charges at a rate lower than the tariff rate. Per the tariff (Sheet No. 21 for Area B, Sheet No. 65 for Area K, and Sheet No. 133 for Area S):

> All volumes of natural gas taken by the transportation Customer in excess of the volumes delivered to the 'Company's Receipt Point' for that Customer (the EGM meter reading adjusted for the appropriate L&UG%), will be assessed 'Unauthorized Use Charges.' Unauthorized Use Charges shall be billed as follows:
>
> <u>Unauthorized Use Charges</u>
> 1) $15 (fifteen dollars) for each Mcf of unauthorized use, plus
> 2) 150% (one-hundred and fifty percent) of the highest cost of gas purchased

> by the Company, for supplying the district in which the Customer receives service, during the Unauthorized Use Charge period, plus
> 3) all intrastate and/or interstate pipeline penalties and other charges incurred by the Company which are attributable to a Customer's unauthorized use.

The Company was charging the 150%, but was omitting the $15 per Mcf ($1.50 per Ccf) charge. The Company's reason for underbilling was stated in the response to DR104 for prior year ACA Case No. GR-2003-0219, as follows:

> The Company did not incur penalties from the pipeline(s) during the months that are in question and therefore did not assess any penalties to the customers other than the cash out penalty rate which equates to 150% of the highest cost of gas purchased by the Company during the period. Since the Company did not experience deliverability problems and penalties were not incurred the Company felt A & C did not apply and would not be appropriate.

The Company's tariff now has been revised, effective August 25, 2005, to remove the $15 charge. Staff computed that, during the 2003-2004 ACA period, the Company under-billed its transportation customers and under-recovered the ACA balances, by $18,300 for Area S, $17,895 for Area K and $675 for Area B. However, because the Commission has approved deleting the $15 charge from the tariff, Staff believes that it would be inappropriate to impute such uncollectible revenue. Staff proposes no adjustment for Unauthorized Use Charges.

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

The Staff has addressed the following concerns regarding Case No. GR-2004-0479 for Atmos Areas B, K and S (formerly Associated Natural Gas) and proposes the following:

1. That Atmos adjust its ACA beginning balances from August 31, 2003, to agree with the balances from the Unanimous Stipulation and Agreement that closed prior year Case No. GR-2003-0219. The related adjustments to the August 31, 2004, ending balances for ACA period 2003-2004 are the following:
    a. Increase the Area S firm ACA over-recovered balance by $67,967.
    b. Decrease the Area S interruptible ACA under-recovered balance by $6,179.
    c. Decrease the Area K firm ACA over-recovered balance by $17,048.
    d. Decrease the Area K interruptible ACA over-recovered balance by $1,604.
    e. Decrease the Area B firm ACA over-recovered balance by $1.
    f. Decrease the Area B interruptible ACA over-recovered balance by $1.

2. That Atmos adjust its August 31, 2003, refunds beginning balances (transferred to ACA accounts during 2003-2004) to agree with the balances from the Unanimous Stipulation and

Agreement that closed prior year Case No. GR-2003-0219. The related refunds adjustments to the August 31, 2003, ending balances for ACA period 2002-2003 are the following:

a. Increase the Area S firm ACA over-recovered balance by $106.
b. Increase the Area S interruptible ACA under-recovered balance by $27.
c. Increase the Area K firm ACA over-recovered balance by $157.
d. Increase the Area K interruptible ACA over-recovered balance by $53.
e. Decrease the Area B firm ACA over-recovered balance by $105.
f. Increase the Area B interruptible ACA over-recovered balance by $37.

3. That Atmos adjust the carrying costs on the under and over-recoveries of PGA/ACA costs to agree with the Staff's computations, as follows:
   a. Decrease the Area S firm ACA over-recovered balance by $4,518.
   b. Increase the Area S interruptible ACA under-recovered balance by $582.
   c. Decrease the Area K firm ACA over-recovered balance by $403.
   d. Increase the Area K interruptible ACA over-recovered balance by $3,458.
   e. Increase the Area B firm ACA over-recovered balance by $1,914.
   f. Decrease the Area B interruptible ACA over-recovered balance by $71.

4. That Atmos reduce gas costs of Area K (Kirksville) to eliminate over-run charges in the amount of $3,494 for firm customers, and $380 for interruptible customers -- a total reduction of $3,874.

5. That Atmos reduce the storage withdrawal costs in the firm ACA account for Kirksville, Area K by $46,347 to agree with the Staff's computation.

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

The Staff recommends that 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 and Transition Cost balances in the "Staff Recommended" column of the following table:

TABLE 1

(ANG) Areas B, K, and S	**8-31-04 Ending Balances per Filing for 2003-2004**	**Staff Adjustments**	**Staff Recommended Ending Balances for 2003-2004**
SEMO District (Area S) Firm ACA	($1,967,569)	($67,967)(A) ($106)(B) $4,518 (C)	($2,031,124)
Interruptible ACA	$149,536	($6,179)(A) $27 (B) $582 (C)	$143,966
Transition Cost	($4,199)	$0	($4,199)
Kirksville District (Area K): Firm ACA	($ 716,119)	$17,048 (A) ($157)(B) $403 (C) ($3,494)(D) ($46,347)(E)	($ 748,666)
Interruptible ACA	($ 197,342)	$1,604 (A) ($53)(B) ($3,458)(C) ($380)(D)	($ 199,629)
Transition Cost	$0	$0	$0
ButlerDistrict (Area B): Firm ACA	($257,376)	$1 (A) $105 (B) ($1,914)(C)	($259,184)
Interruptible ACA	($33,664)	$1(A) ($37)(B) $71 (C)	($33,629)
Transition Cost	$0	$0	$0

Notes to Staff Adjustments:

A) ACA beginning balances August 31, 2003 adjusted to prior year ending balances

B) Refund beginning balances August 31, 2003 adjusted to prior year ending balances, then transferred into ACA accounts
C) Adjustments to carrying costs on the under and over-recoveries of PGA/ACA costs
D) Over-run gas costs adjustment
E) Storage adjustment

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

SECTION 3. AREAS P AND U (FORMERLY UNITED CITIES GAS)

BEGINNING BALANCES MAY 31, 2003

Ending balances for the prior year ACA Case No. GR-2003-0219 were established in the Unanimous Stipulation and Agreement that the parties filed on February 22, 2005. However, the Company's support for the 2003-2004 ACA filing showed the beginning balances to be different amounts. The reason is that the 2003-2004 PGA/ACA filings were made in October 2004, while the prior year amounts were still in dispute until February 22, 2005, (Unanimous Stipulation and Agreement file date). Therefore, Staff proposes adjustments to the beginning ACA balances as shown in the table below:

Areas P & U	5/31/03 Beginning Balances per Filing for 2003-04	Staff Adjustments	Unanimous Stipulation & Agreement Ending Balances for 2002-03
Consolidated District:			
Demand ACA	($350,834)	$2,889	($347,945)
Commodity ACA	($851,564)	$200,748	($650,816)
Refund	($8,177)	$0	($8,177)
Neelyville District:			
Demand ACA	($6,605)	($348)	($6,953)
Commodity ACA	($46,523)	$8,578	($37,945)
Refund	($347)	$0	($347)

DEFERRED CARRYING COST BALANCE AND CARRYING COSTS ON UNDER OR OVER-RECOVERIES OF PGA/ACA COSTS

The Deferred Carrying Cost Balance (DCCB) computation was required under the Company's tariff until it was replaced, effective September 19, 2003, with computation of interest on the Under or (Over) Recovered ACA Balance as described below. The Deferred Carrying Cost Balance (DCCB) was 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%

were 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 exceeded 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 was to be included in the determination of the new ACA factor to be effective in the scheduled winter PGA filing. For Areas P and U, the Company used the DCCB method for the months of June through August, 2003.

In compliance with an experimental tariff revision, effective September 19, 2003, Atmos changed its method of computing carrying costs on the cumulative under or over recovery of gas costs. Using the new method, interest is computed each month based on the average of the accumulated monthly over or under recoveries of all PGA related costs – the entire ACA balance, in effect. The carrying costs are credited to customers for any over-recovery, or credited to the Company for any under-recovery. The interest rate is 1% lower under the revised tariff, now at the prime rate minus 2%. The new carrying costs determination is experimental, and shall expire on July 1, 2006, unless an agreement is reached by the parties and approved by the Commission. For Areas P and U, the Company used the new method for the months of September 2003 through May 2004.

In its 2003-2004 PGA/ACA filing the Company miscalculated the Consolidated district commodity carrying costs applied on the DCCB for June through August 2003, and on the over-recoveries of PGA costs for September through May 2004. Therefore, the Staff proposes to decrease the Consolidated district commodity over-recovery by $4,094 for carrying costs on the DCCB, and $892 for carrying costs on over-recoveries of PGA/ACA costs – a total adjustment of $4,986.

SUMMARY – AREAS P AND U (FORMERLY UNITEDCITIES GAS)

The Staff has addressed the following concerns regarding Case No. GR-2004-0479 for Atmos Areas P and U (formerly United Cities Gas) and proposes the following:

1. That Atmos adjust its ACA beginning balances from May 31, 2003, to agree with the balances from the Unanimous Stipulation and Agreement that closed prior year Case No. GR-2003-0219. The related adjustments to the May 31, 2004, ending balances for ACA period 2003-2004 are the following:
    a. Decrease the Consolidated demand ACA over-recovered balance by $2,889.
    b. Decrease the Consolidated commodity ACA over-recovered balance by $200,748.
    c. Increase the Neelyville demand ACA over-recovered balance by $348.
    d. Decrease the Neelyville commodity ACA over-recovered balance by $8,578.

2. That Atmos decrease the Consolidated commodity over-recovered balance by $4,094 for carrying costs on the DCCB, and $892 for carrying costs on over-recoveries of PGA/ACA costs – a total adjustment of $4,986.

RECOMMENDATION – AREAS P AND U (FORMERLY UNITED CITIES)

The Staff recommends that 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 balances in the "Staff Recommended" column of the following table:

TABLE 2

(UNITED CITIES) Areas P and U	5-31-04 Ending Balances per Filing for 2003-2004	Staff Adjustments	Staff Recommended Ending Balances for 2003-2004
Consolidated District: Demand ACA	($382,269)	$2,889 (A)	($379,380)
Commodity ACA	($3,514,432)	$200,748 (A) $4,986 (B)	($3,308,698)
Neelyville District: Demand ACA	($ 3,897)	($348)(A)	($ 4,245)
Commodity ACA	($ 93,421)	$8,578 (A)	($ 84,843)

Notes to Staff Adjustments:
(A) ACA beginning balances May 31, 2003 adjusted to prior year ending balances
(B) Adjustment of DCCB and carrying costs on under or over-recoveries of PGA/ACA costs

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

SECTION 4. AREA G (FORMERLY GREELEY GAS)

BEGINNING BALANCES MAY 31, 2003

Ending balances for the prior year ACA Case No. GR-2003-0219 were established In the Unanimous Stipulation and Agreement that the parties filed on February 22, 2005. However, the Company's support for the 2003-2004 ACA filing showed the beginning balances to be different amounts. The reason is that the 2003-2004 PGA/ACA filings were made in October, 2004, while the prior year amounts were still in dispute until February 22, 2005 (Unanimous Stipulation and Agreement file date). Staff, therefore, proposes adjustments to the beginning ACA balances as shown in the table following:

Area G	**5/31/03 Beginning Balances per Filing for 2003-04**	**Staff Adjustments**	**Unanimous Stipulation & Agreement Ending Balances 2002-03**
Greeley District: Total (Over)/Under Recovery	($5,902)	($1,111)	($7,013)
Refund	$2,929	$0	$2,929

REALLOCATION OF STORAGE AND TRANSPORTATION CHARGES

Staff identified the storage and transportation costs that the Company included in the Division 80 Clearing Account, and the percentages used to allocate those costs to Missouri Division 29. Staff then recomputed the allocation. There were differences between the Company's and the Staff's computations for the following reasons:

1. The Company included costs that were invoiced for Anthony and Contract TQ0019. The Staff believes that those costs pertain to Kansas only, and should not have been included in the base costs that were allocated to Missouri.

2. For the period of November 2002 to October 2003, Staff developed a demand allocation factor of 2.819% versus the Company-filed factor of 2.67%. This resulted in a Staff adjustment for the prior ACA period, Case No. GR-2003-0219. The Company agreed to the resulting Staff adjustment in the Unanimous Stipulation and Agreement dated February 22, 2005. The differences continued through October of the 2003-2004 ACA period.

As a result of these differences, the Staff proposes an increase of $583 in the demand cost of storage and transportation (including capacity release) and a decrease of $3,587 in the commodity cost of gas purchases, transportation, and storage injection fees. This results in a net decrease of $3,004 in Purchased Gas Cost.

GAS LOST AND UNACCOUNTED FOR

The Company's Lost Gas Report showed that 14.83% of the gas purchased for Rate Code 29 (Greeley – Area G) was lost and unaccounted for. Atmos staff explained that it was probably a timing anomaly brought about by Atmos' conversion to a new Lost Gas Reporting system during 2004, and that they expected lost gas levels to return to historical levels for 2005. In addition, the Company has recently decided to conduct all of its meter testing at a Company owned facility in Jackson, Mississippi. Gas lost due to third party damages is estimated and billed. Because this explanation seems reasonable, Staff is proposing no adjustment related to lost gas for ACA period 2003-2004. However, Staff will review lost gas in the next ACA period to ensure that the apparent problem does not continue.

SUMMARY – AREA G (FORMERLY GREELEY GAS)

The Staff has addressed the following concerns regarding Case No. GR-2004-0479 for Atmos Area G (formerly Greeley Gas Company's Southwest Missouri District) and proposes the following:

1. That Atmos adjust its ACA beginning balance from May 31, 2003 to agree with the balance from the Unanimous Stipulation and Agreement that closed prior year Case No. GR-2003 0219. The related adjustment to the May 31, 2004, ending balance for ACA period 2003-2004 would increase the Area G ACA over-recovered balance by $1,111.

2. That Atmos adjust gas costs for storage and transportation (including capacity release) of Area G, increasing demand cost by $583, and decreasing commodity cost by $3,587 – a $3,004 net decrease in Purchased Gas Cost.

RECOMMENDATION – AREA G (FORMERLY GREELEY GAS)

The Staff recommends that 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 balances in the "Staff Recommended" column of the following table:

TABLE 3

(GREELEY) Area G	**5-31-04 Ending Balances per Filing for 2003-2004**	**Staff Adjustments**	**Staff Recommended Ending Balances for 2003-2004**
ACA Beginning Balance 5-31-03	($5,902)	($1,111)(A)	($7,013)
Recovered Gas Cost	($246,252)		($246,252)
Purchased Gas Cost	$267,512	($3,004)(B)	$264,508
Refund Balance Transferred to ACA	$4,483		$4,483
Interest on Under/(Over) Recovery	$265		$265
Rounding Difference	$1		$1
ACA Ending Balance 5-31-04	$20,107	($4,115)	$15,992

Notes to Staff Adjustments:
A) ACA beginning balances May 31, 2003 adjusted to prior year ending balances
B) Reallocation of transportation and storage costs

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