BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Atmos Energy Corporation to Modify its Approved Cast Iron Main and Unprotected Steel Main Replacement Program.	)))))	**Case No. GO-2006-0253**

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and for its Staff Recommendation respectfully states:

1. On December 13, 2005, Atmos Energy Corporation ("Atmos" or "Company") filed its Application to Modify its Approved Cast Iron Main and Unprotected Steel Main Replacement Program ("Application"). With its Application, the Company also requests that the Commission issue an order granting the requested relief by December 31, 2005.

2. On December 15, 2005, the Commission issued its Order Directing Filing ("Order") directing the Staff to file a pleading not later than December 20, 2005 stating when Staff will file its memorandum and recommendation in the above-captioned case. In accord with the Commission's Order, the Staff is submitting its completed verified recommendation in this case, attached as Appendix A and incorporated by reference herein.

3. Staff has reviewed Atmos' Application and finds the proposed modification of the Company program for the replacement of unprotected steel and cast iron mains to be acceptable for the reasons explained in Staff's Memorandum. (See attached Appendix A). Staff agrees that this proposal for the replacement of the newly identified unprotected steel mains and associated

cast iron mains (in compliance with 4 CSR 240-40.030(15)(D)) will continue to provide for the public safety until all remaining unprotected steel mains are replaced consistent with the Commission Order in Case No. GO-91-276.

WHEREFORE the Staff recommends that the Commission issue an order approving the Application of Atmos to modify its approved cast iron main and unprotected steel main replacement program and that a copy of said order be placed in the original case file of Case No. GO-91-276.

Respectfully submitted,

DANA K. JOYCE
General Counsel

/s/ Robert S. Berlin
Robert S. Berlin
Assistant General Counsel
Missouri Bar No. 51709

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or e-mailed to all counsel of record 16th day of December 2005.

/s/ Robert S. Berlin

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2006-0253, Atmos Energy Corporation

FROM: John Kottwitz, Energy Department – Safety/Engineering

/s/ John Kottwitz 12/16/05
Project Coordinator / Date

/s/Tim Schwarz 12/16/05
General Counsel's Office / Date

SUBJECT: Staff Recommendation for Approval of Replacement Program Proposal

DATE: December 16, 2005

Background on Original Case (Case No. GO-91-276)

Case No. GO-91-276 was established in 1991 to review and approve the cast iron main and unprotected steel main programs for the Missouri operations of United Cities Gas Company, now known as Atmos Energy Corporation (Atmos or Company). All of the cast iron and unprotected steel mains covered by these programs were located in Hannibal. The Commission approved a program to replace all cast iron mains (190,550 feet) by 2020 and to replace or cathodically protect all unprotected steel mains (111,160 feet) in 15 years (1991 – 2005). As explained further in the Company's program and subsequent Staff Recommendation, the Company in 1991 gave higher replacement priority to unprotected steel mains than cast iron mains due to a higher incidence of leakage that was occurring in the steel mains. This resulted in the Company's program to replace all unprotected steel mains rather than just the "high priority" mains as required by 4 CSR 240-40.030(15)(E). The Company has submitted annual reports to the Gas Safety Staff (Staff) regarding main replacements under this program, noting steady progress in the completion of 111,160 feet of unprotected steel main by the end of 2005. Staff notes that the term "unprotected" as used in these cases refers to a steel pipe not being cathodically protected to prevent corrosion.

Atmos Request

The Atmos application in this case notes that the last remaining 7,422 feet of the 111,160 feet included in the original program for unprotected steel mains have been completed in 2005. However, Atmos still has approximately 6,053 feet of unprotected steel mains that remain in its low-pressure system in northeast Hannibal. This remaining footage involves short steel main segments that are interspersed among cast iron mains, have no existing leaks, and are located throughout this

low-pressure system. Rather than replacing the interspersed steel segments now and return later to replace the connected cast iron mains by 2020, Atmos requests to replace this entire low-pressure system with a new high-pressure system over five years (2006-2010). This will enable Atmos to focus during these five years on replacement of the high-pressure, 2¼-inch diameter cast iron mains that remain in Hannibal. These cast iron mains have a higher replacement priority than the non-leaking, low-pressure unprotected steel mains that remain. To further ensure continued gas safety for these remaining segments of unprotected steel main, Atmos will increase its leak survey frequency over these main segments (and any unprotected steel service segments) from annual to semi-annual. Any Class 3 or 4 leaks (defined as non-hazardous in 4 CSR 240-40.030(14)) found during these leak surveys will be repaired within six months. Atmos will provide the leak survey results with ongoing annual reports to the Staff.

Staff Response

The Staff has reviewed the application filed by Atmos and finds the proposed modification of the Company program for unprotected steel and cast iron mains to be acceptable. The Staff agrees that this proposal for the additional unprotected steel mains will continue to provide for public safety until all remaining unprotected steel mains are replaced. All remaining unprotected steel mains and service line segments would be leak surveyed semi-annually until they are replaced, instead of annually as required under 4 CSR 240-40.030(13)(M)2.B.(I)[1]. Corrosion leaks in unprotected steel mains start as small pinholes and gradually increase in size, allowing for a new corrosion leak to be detected by the semi-annual leak survey while it is still non-hazardous. In addition, a corrosion leak from a low-pressure steel main would involve less migration and risk than if it was a high-pressure steel main. Upon detection, a new leak would then be classified and acted upon in the following manner. Class 1 and 2 leaks would continue to be repaired immediately or within 45 days as required by 4 CSR 240-40.030(14). Non-hazardous Class 3 and 4 leaks would be repaired within six months, which is sooner than required by 4 CSR 240-40.030(14).

The replacement program in Case No. GO-91-276 has been successful in eliminating all unprotected steel mains that were within the initial 15-year program. The Staff agrees that the Company can safely replace the additional steel mains that were not included in the initial program over the next five years. The Staff also agrees with this proposal to replace the entire low-pressure system in northeast Hannibal over five years with new smaller-diameter, high-pressure polyethylene mains. This will be more efficient than immediately replacing the additional steel mains with same-diameter, low-pressure polyethylene mains, and then having to return to these same locations by 2020 to replace the adjoining cast iron mains and upgrade the system to high-pressure. Furthermore, digging up these same streets twice would be disruptive and unpopular with area residents and City officials.

1 Federal requirements that apply in most other states only require unprotected steel mains and service lines to be leak surveyed at three-year intervals.

In 1991, the Company program gave higher priority to the replacement of the high-pressure, unprotected steel mains that were developing corrosion leaks than to the replacement of the cast iron mains that were not experiencing fractures. Now that all high-pressure, unprotected steel mains have been replaced, the Staff agrees that Atmos should give higher priority to replacing high-pressure, small diameter cast iron mains than to replacing low-pressure unprotected steel mains with no leaks. By allowing Atmos to replace this low-pressure system over the next five years, the Company can focus its resources on replacement of the remaining high-pressure, 2¼-inch diameter cast iron mains during the next five years. This will also enable a number of cast iron mains in the low-pressure system to be replaced sooner than they would be under the original program.

It was also noted in the 1991 Staff Recommendation that the Company program addressed all unprotected steel mains in a 15 year period (1991- 2005) and that this program for all mains went beyond 4 CSR 240-40.030(15)(E), which requires a program that addresses unprotected steel mains in high priority areas. The Staff has discussed the newly identified, additional steel mains with Company personnel, and they indicate that these low-pressure mains are not in the high priority areas that must be replaced under 4 CSR 240-40.030(15)(E). While not required by this regulation, the Staff believes it is appropriate that Atmos has filed this proposal to supplement the original Commission-approved program to replace or cathodically protect all unprotected steel mains.

Staff Recommendations

The Staff recommends that the Commission approve the application filed by Atmos. If the Commission approves the application, the Staff recommends that a copy of the Order be placed in Case No. GO-91-276.

Annual Report Status, Assessment Status, and Open Cases

Atmos filed a 2004 annual report with the Missouri Public Service Commission on March 31, 2005. The Staff (Auditing Department) then filed a review memo on April 18 indicating that no deficiencies were found during the initial review of this report. Commission records indicate that Atmos is current on its FY-2006 assessments. In addition to this case, the following cases involving Atmos are open at this time.

GR-2004-0479 GR-2005-0311 GW-2006-0110 GX-2006-0181

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VERIFICATION

STATE OF MISSOURI)
)
COUNTY OF COLE)

I, John D. Kottwitz, Utility Engineering Specialist III in the Commission's Energy – Safety/Engineering Department, of lawful age, on oath state: that I participated in the preparation of the Staff Memorandum that is being filed in the above case on December 16, 2005, consisting of three pages to be presented in this case; that information in the Staff Memorandum was given by the Atmos Energy Corporation; that I have true knowledge of the matters set forth in such memorandum; and that such matters are true to the best of my knowledge and belief.

John D. Kottwitz

Subscribed and sworn to before me this 16th day of December, 2005.

NOTARY PUBLIC

CARLA K. SCHNIEDERS
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 06/07/2008