BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

ATMOS ENERGY CORPORATION'S
RESPONSE TO STAFF RECOMMENDATION

COMES NOW Atmos Energy Corporation ("Atmos" or "Company"), and pursuant to the Commission's Order issued on December 27, 2004, states its response to the Staff's Recommendation filed on December 22, 2004, as follows:

On December 22, 2004, the Commission Staff filed its recommendation following completion of the audit of the 2002-2003 Actual Cost Adjustment ("ACA") filing. The Staff's audit consisted of an analysis of the billed revenues and actual gas costs included in the Company's computation of the ACA for the 2002-2003 period. The Company will respond to the various issues identified by Staff in the following paragraphs.

ATMOS ENERGY CORPORATION – GENERAL

EXTERNAL AUDIT PAPERS

Company takes exception to the statement on page 2 of the Staff's recommendation that the Staff "was not allowed to review the external audit work papers regarding billed revenue, gas purchasing and derivatives related to the Purchased Gas Adjustment (PGA) and Actual Cost Adjustment (ACA)." The Company disagrees with that characterization. The issue of external audit work papers was the subject of discussion at various times throughout the Staff's audit. The initial staff request was for external audit work papers regarding billed PGA revenue, PGA clause, gas purchasing and derivatives (DR No. 11, 1/14/04) and a copy of all correspondence related to gas purchasing between Company and external auditors (DR No. 12, 1/14/04). The Company's initial response to both requests was "Not Applicable". In follow-up discussions, the Company informed Staff that its external auditor does not conduct its audits on a Missouri (or any state) specific basis and that therefore it does not have Missouri specific work papers or related correspondence. At that point, Staff indicated that it desired to review all of the external auditors work papers for the relevant period, not just those relating to the subject matter of this docket. Company had two primary concerns regarding that request. First, the Company believed that the scope of the request was overbroad and included information well beyond the scope of this proceeding. Second, it would have resulted in expenses of approximately $10,000 for the Company's external auditor to comply with a request of that magnitude. Despite these concerns, the Company authorized its external auditor to allow the Staff access to its work papers. The work papers are the property of the external auditor, not the Company, and pursuant to its internal procedures, the external auditor requested that Staff sign an acknowledgement prior to making the work papers available. The acknowledgement was never signed by the Staff. Company was not made aware of Staff's reasons for not signing the acknowledgement.

Subsequent discussions between Staff and Company clarified the misunderstanding regarding this issue. Staff indicated that its request for external audit work papers was limited to the subject matter of this docket and that it did not desire to review all of the external auditor's work papers. Company stated that this information is available to Staff but reiterated that its external auditors conduct its audits on a Company-wide, not a state-by-state basis. Therefore, there are no external audit work papers specifically related to Missouri in the areas of billed PGA revenue, PGA clause or gas purchasing and derivatives. As Staff, noted in its recommendation, in lieu of Missouri specific external audit work papers it requested an affidavit from the Company's Vice President and Controller attesting to statements he made to Staff during a November 30, 2004 conference call, a copy of the internal control letter from Company's external auditor and a copy of the minutes from a Board of Director's Audit Committee meeting with the external auditor. Staff indicated that these procedures were acceptable and the Company provided these items to Staff.

CAPACITY RELEASE PROCEDURES

The Company will agree to provide the Staff with the Company's capacity release procedures by May 31, 2005.

HEDGING

The Company has been aggressive in the area of risk management. The Company has a Risk Administrator position that is dedicated purely to hedging. The Company attempts to be proactive in determining the best hedging tools for each jurisdiction while also creating a diversified portfolio. The Company will continue to monitor the market movement and to evaluate various hedging alternatives to ensure a successful and prudent hedging program.

RELIABILITY ANALYSIS

The Company agrees to provide a Reliability Analysis Summary to the Staff by March 9, 2005.

AREA G (FORMERLY GREELEY GAS)

1. In the "Reallocation of Southern Star Storage, Transportation and Gas Supply" section of the Staff Recommendation, Staff proposes that the demand costs be increased by $1,806 and the commodity costs should be decreased by $246, a total increase of $1,560. The Company will agree to this amount.

2. In the "Storage" section of the Staff Recommendation, Staff proposes that Company reduce storage by $10,931. The Company agreed in Case No. GR-2003-0150. As stated in Staff's Recommendation, due to the timing of the final recommendation in the previous case, this storage adjustment was included in the 2003/2004 balances.

3. In the "Refund" section of the Staff Recommendation, Staff proposed an adjustment of $485 to the refund balances. The Company did not file a refund factor in this ACA period as the current refund had not expired. The Company considers these adjustments not applicable during this audit.

4. In the "Tenaska Marketing Ventures" section of the Staff Recommendation, Staff proposed a reduction in gas costs of $2,670. The Company will agree to this adjustment.

SUMMARY—AREA G (FORMERLY GREELEY GAS):

The Company agrees to a total adjustment amount of ($1,110) to be included in the 2004/2005 ACA balances. The adjustment of ($7,261) was filed with the 2003/2004 balances.

AREAS P AND U (FORMERLY UNITED CITIES)

1. In the "Beginning Balances" section of the Staff Recommendation, Staff is proposing to restate beginning and ending balances plus current case adjustments. The Company will agree to the beginning balances plus the adjustments. The proposed reduction in demand costs of $728 and increase in commodity costs of $2,465 for the Consolidated Division was included in the balances filed in October 2004. The proposed reduction in the commodity costs for Neelyville of $73 was included in the balances as filed in October 2004. Due to the timing of Staff's audit results and the required filing date of the ACA reconciliation, the Staff adjustments are carried over into the following ACA period.

2. In the "Agency Fees" section of the Staff Recommendation, Staff proposes to disallow $1,009 of agency fees paid to Laclede Energy Resources. Staff states that such fees are more closely related to consulting services that are typically reviewed in a general rate case. Company disagrees. These costs are not consulting costs, but amounts paid to a gas supplier for the purchase of gas supplies. Gas suppliers, and interstate pipelines, charge for their services. These charges for services are usually embedded in commodity and/or demand charges, and are not easily identified. But these are still costs. The agency fees paid to Laclede Energy must be paid in order to utilize their services, which is to provide gas supplies, and is, therefore, properly includable in the cost of gas.

3. In the "Deferred Carrying Cost Balance" of the Staff Recommendation, the Staff recommends reducing the demand over-recovery by $787, decrease the Consolidated District commodity over-recovery by $5,584, decrease the Neelyville District demand over-recovery by $54, and decrease the Neelyville District commodity over-recovery by $666. After reviewing Staff work papers provided with this adjustment, in the Company's interpretation, the amounts

should increase the respective gas costs not reduce the costs. The Company requests clarification and agrees that adjustments are necessary, but until the outstanding issues and amounts have been resolved, cannot agree to the amount of adjustment needed.

SUMMARY—AREAS P AND U (FORMERLY UNITED CITIES):

The Company agrees to a total decrease in demand gas costs for the Consolidated Division of $728 and an increase of commodity gas costs of $2,465. The Company also agrees to the reduction in commodity gas costs for the Neelyville District of $73. These adjustments were included in the balances as filled in October 2004. The Company does not agree with the disallowance of $1,009 for agency fees. The Company requests clarification on the Deferred Carrying Costs adjustments prior to accepting or rejecting these adjustments.

AREAS B, K, AND S (FORMERLY ASSOCIATED NATURAL GAS)

1. In the "ACA Balance" section of the Staff Recommendation, Staff proposes to adjust beginning balances to reflect the Staff adjustments from GR-2003-0150. The Company agrees with these Staff adjustments. However, when the Company reported the adjustments from GR-2003-0150 in the 2003/2004 ACA filing, the Area S firm adjustment was overstated by $67,357; the Area S interruptible adjustment was overstated by $6,179; the Area K firm adjustment was understated by $9,172; and, Area K interruptible adjustment was understated by $2,080. The Company proposes to make these adjustments in the 2004/2005 balances.

2. In the "Deferred Carrying Cost Balance" of the Staff Recommendation, the Staff recommends increasing the firm gas costs by $12,173. The Company agrees that adjustments are necessary, but until the outstanding issues and amounts have been resolved, cannot agree to the amount of adjustment needed.

3. In the “Refunds” section of the Staff Recommendation, Staff proposes adjustments to all areas both firm and interruptible. The Company did not file a refund during this ACA period as the refund factor was still in effect through November 2003. The Company did include a refund filing with the 2003/2004 ACA filing. The Company agrees that adjustments are necessary, and were reported in the 2003/2004 filing.

4. In the “Transition Costs” section of the Staff Recommendation, Staff states the Company intends to write-off the transition credit of $7,149. This is not the case. This balance was used in calculating a new factor in the 2003/2004 ACA filing per Company’s 61st tariff sheet. The Company filed this balance in accordance with its tariffs. Also, in the Summary section, Staff proposes that the Kirksville District have a Transportation Transition Cost balance of ($707). The Company, in compliance with its filed tariff, wrote-off the ($707) applicable to Transportation customers. The Company does not need to make any adjustments.

5. In the “Over-run Gas” section of the Staff Recommendation, Staff is proposing to remove ($10,017) of over-run charges from ANR. Company disagrees with Staff’s proposal. The Company agrees that adjustments are necessary, but until the outstanding issues and amounts have been resolved, cannot agree to the amount of adjustment needed.

6. In the “Louisiana Property Tax” section of the Staff Recommendation, Staff proposes removing this annual property tax amount of $2,219. The Company disagrees with Staff’s proposed adjustment. This charge is paid on the Company’s behalf by CenterPoint Energy Gas Services and passed through on an annual basis. The annual tax is based on the value of the gas inventory in the Unionville storage fields. The value and tax vary each year depending on gas prices, volumes stored and tax rates. The Unionville storage fields are located in Lincoln Parish, Louisiana. However, this is a portion of the Company’s gas costs.

SUMMARY—AREAS B, K AND S (FORMERLY ASSOICATED NATURAL GAS):

The Company agrees with the Staff adjustments to the ACA balances. However, the Company is requesting that additional adjustments be made to the beginning balances in the Company's 2004/2005 ACA filing as stated above to accurately reflect Staff's adjustments. The Company agrees that refund adjustments are necessary and were filed in the 2003/2004 ACA filing. Area S Transition Cost balance was included in the 2003/2004 ACA filing however, Area K's Transition Cost balance was written off in the 2001/2002 ACA. The Company does not agree with the total over run gas adjustment and will provide work papers upon Staff's request calculating the difference between Staff's adjustment and Company's adjustment. Also, the Company does not agree with the disallowance of the Louisiana Property tax as this is a gas cost that is passed along to the Company on an annual basis.

GENERAL

The Company will provide any of the work papers associated with these adjustments as outlined in this response.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of this document has been hand-delivered, emailed or mailed, First Class, postage prepaid, this 20th day of January, 2004, to:

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/s/ James M. Fischer
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