

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2009-0417, Atmos Energy Corporation

FROM: David M. Sommerer, Manager - Procurement Analysis Department
Phil Lock, Regulatory Auditor - Procurement Analysis Department
Kwang Choe, Ph.D., Regulatory Economist - Procurement Analysis Department
Derick Miles, Utility Engineering Specialist - Procurement Analysis Department
Lesa Jenkins, P.E., Regulatory Engineer - Procurement Analysis Department

/s/ David M. Sommerer, 12/30/2010 /s/ Bob Berlin, 12/30/2010
Project Coordinator, Date General Counsel's Office, Date

SUBJECT: Staff's Recommendation in Atmos Energy Corporation's
2008-2009 Actual Cost Adjustment Filing

DATE: December 30, 2010

The Procurement Analysis Department (Staff) has reviewed Atmos Energy Corporation's (Atmos or Company) 2008-2009 Actual Cost Adjustment (ACA) filing. This filing was made on October 15, 2009, for rates to become effective on November 1, 2009, in all areas served in Missouri. This filing was docketed as Case No. GR-2009-0417.

Staff's analysis consisted of a review and evaluation of the Company's billed revenues and its natural gas costs for the period of September 1, 2008, to August 31, 2009. A comparison of billed revenue recovery with actual costs will yield either an over-recovery or under-recovery of the ACA costs. Staff performed an examination of Atmos' gas purchasing practices to determine the prudence of the Company's purchasing decisions. Staff conducted a hedging review to determine the reasonableness of the Company's hedging plans for this ACA period. Staff also conducted a reliability analysis of the Company's estimated peak day requirements and capacity levels to meet those requirements.

Atmos' Missouri service territory is composed of the following areas: West, Kirksville, Northeast and Southeast. The West area includes Butler which is served by Panhandle Eastern Pipe Line Co., LP (PEPL) and the former Rich-Hill/Hume service area which is served by Southern Star Central Gas Pipeline, Inc. (SSCGP). Butler served an average of 3,588 firm sales customers and Rich-Hill/Hume served an average of 416 firm sales customers, for a total customer base of 4,004 customers. The Kirksville area, served by ANR Pipeline Co. (ANR), has an average of 5,681 customers. The Northeast area, served by Panhandle Eastern Pipe Line Co., LP (PEPL), served an average of 13,353 firm customers in the former districts of Hannibal-Canton, Bowling Green and Palmyra. The Southeast area (SEMO) includes 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. The Southeast area also includes the former Neelyville service area which is served by Natural Gas Pipeline Co. of America (NGPL)

Staff recommends the Company consider using a fewer number of years of data. Doing so will allow the Company to capture more recent system load variations due to customer growth (increase or decline), change in customer usage habits, or changes in appliance efficiency or housing construction. Staff also recommends Atmos chart the daily data versus temperature or heating degree data to determine whether some of the data needs to be examined more closely before including or excluding that data from its regression analysis.

B. Supply Planning

1. Priority of Atmos Firm Natural Gas Supplies

For service areas where Atmos contracts for supplies at the Production/Market Interface, with no contracted capacity in the Production Area, the Company should evaluate the reliability (or “firmness”) of the natural gas supplies. During periods of extreme cold weather or for operational reasons not related to weather, the pipelines could issue force majeure, curtailments, flow orders, or other cuts of natural gas deliveries. The pipeline tariff contains provisions for Scheduling of Service that set the priority of curtailments and cuts. Atmos needs to have certainty that its supply contracts will be fulfilled. Staff recommends the Company assess the reliability of deliveries to the Production/Market Interface, and assess whether its own or its supplier’s lack of Production Area capacity impacts reliability.

Staff recommends Atmos provide such evaluations/assessments to Staff within 90 days.

2. Supply For Combined Hannibal and Bowling Green Service Areas

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3. Flexibility and Cost of Atmos Supply Plans

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Atmos does not provide an analysis of how its supply plans (planned flowing supplies and planned storage withdrawals) could be varied to address warm weather requirements for the winter months of November through March. Although Atmos has estimated warm requirements using its regression analyses and monthly weather that is 20% warmer than normal, it does not present its supply plan analyses that demonstrate flexibility to address warmer month and warm day requirements. Additionally, Atmos does not sufficiently explain why a 20% variation in weather is adequate. For example, a review of 30-years of heating degree data for Kansas City shows that on a monthly basis, weather can be about 20% warmer than normal (December) or it can be about 40% warmer than normal (November, January and March). Daily weather could be much warmer than normal. Staff is concerned with the reasonableness of the Atmos warm weather estimates and the fact that Atmos has not performed any analysis to show how it would adjust its supply for warm weather.

Missouri School Transportation Monthly Imbalances

**** Denotes Highly Confidential Information ****

Customer Billings

Sheet No. 40 of the PGA tariffs states “The Company may bill its customers the newly effective rates only when all service being billed is service taken after the effective date of the new rates”. After review of the Company’s billing sample, Staff found on several occasions that this provision was not being followed (i.e. PGA rate of \$.9221/ccf effective on 11-1-08 was being used for service rendered 10-13-08 to 11-10-08). This tariff language was implemented by the Company as an alternative to proration. Staff recommends the Company follow its tariff language or apply the applicable proration.

Request for Proposals (RFPs)

The Staff renews its concerns about Atmos’ RFP process as expressed by Staff in its 2006-2007 and 2007-2008 ACA recommendations in Case Nos. GR-2007-0403 and GR-2008-0364. Accordingly, Staff recommends that the supply bid process and the resulting supply contracts must contain sufficient terms and conditions to assure firm supply, except in specific situations where the LDC may not require firm supplies, and must provide detailed explanation of penalties and consequences of failure to perform. Additionally, when an LDC deals with its affiliate, the LDC must have clear assurances that its affiliate provides the same high level of service that is expected from non-affiliates. Equally as important, the LDC must take appropriate action in the event of an affiliate’s non-performance, including the seeking of penalties that would hold captive ratepayers harmless. This is a heightened concern to Staff because of the potential for supply cuts to firm service such as those experienced by the Company during the 2007-2008 ACA period. Staff recommends the RFPs be re-evaluated by the Company to ensure that potential suppliers are put on notice of the requirement to provide firm gas supplies and that any disruption of firm supplies may be subject to penalties.

Staff also requests the Company provide the current status of all Company actions regarding Staff’s past RFP recommendations for the 2006-2007 and 2007-2008 ACA cases.

Affiliated Transactions

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Cash-out Provisions

The Company's PGA tariffs (Sheet 52) include a monthly cash-out provision for its transportation customers. Imbalances are cashed-out (priced out) on a monthly basis thereby reconciling the imbalances on a monthly basis. Effective April 1, 2007, Atmos added a provision in its transportation tariffs that provides for a daily scheduling fee to be assessed for any daily transportation imbalance in excess of 10% of the customers' daily confirmed nomination. The annual storage demand charges and storage capacity charges (for all pipelines) along with the average storage injection and withdrawal fees are combined to calculate daily scheduling fees. These tariff provisions are intended to compensate Atmos' firm sales customers for the cost of storage used in providing balancing services to its transportation customers. Staff found that the MRT FSS

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annual storage costs, used in calculating the annual storage demand and storage capacity charges, were not properly calculated. The Company agreed and submitted a revised calculation of scheduling charges. Staff's adjustment includes the revised scheduling fees of transportation customers on the PEPL, SSCG, NGPL, ANR and MRT pipelines. The revised calculation shows that scheduling fees were overcharged to Atmos' transportation customers from September 2008 to March 2009 (\$0.48 fee charged versus \$0.40 fee per formula on tariff sheet 52d). This results in a refund to transport customers and an increase in gas costs to firm sales customers in the following service areas: Kirksville \$1,570; Northeast \$2,725; and Southeast \$8,531. The Staff recommends that gas costs not be increased for this adjustment until the Company has confirmed that the transportation customers have received their refunds.

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RECOMMENDATION – ATMOS ENERGY CORPORATION, GENERAL

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

1. Respond to the issues in the Reliability Analysis and Gas Supply Planning section of this Memorandum. (There is no financial adjustment related to Reliability or Supply Planning for this ACA review period.)
2. Provide to Staff, within 90 days, evaluations/assessments and analyses related to: (A) Priority of Atmos Firm Natural Gas Supplies; (B) Supply for Combined Hannibal and Bowling Green Service Areas and (C) Flexibility of Supply Plans.
3. Comply with the School Transportation Imbalance section of this Memorandum.
4. Comply with the Customer Billings section of this Memorandum.
5. For the Staff concerns regarding the supply agreement with Atmos Energy Marketing, an affiliate of Atmos, adjust the gas costs for the Northeast district by \$413,165 and by \$81,852 for the Butler district as shown in Table 1 (Sections 1 – 4). Additionally, respond to the RFP issues and recommendations in the Affiliated Transaction section of this Memorandum.

6. Respond to Staff's comments in the Hedging Section.
7. Adjust cash-out amounts for the following: Kirksville area \$1,570; SEMO area \$8,531; and Northeast area (\$6,739). These adjustments are included in the table located in Table 1 (Sections 1 – 4).
8. File a written response to the recommendations included herein within 30 days.

SECTION 2. - SOUTHEAST AREA

NGPL NSS STORAGE

During the months of June 2009, July 2009 and August 2009, Staff discovered a volume error in the Company's calculation of NGPL-NSS storage injections. As a result, the volumes do not reflect the proper (fuel adjusted) purchased volumes for storage. Staff recommends that the Company re-evaluate the purchased volumes for NGPL-NSS storage injections from June 2009 to August 2009.

SECTION 3. - WEST AREA

BUTLER STORAGE

Staff found inconsistencies in the Company's calculation of PEPL storage injection costs. PEPL Trans Field commodity costs were used prior to April 2009 whereas PEPL Trans Market Access commodity costs were used from April 2009 to August 2009. Staff recommends that the Company re-evaluate the PEPL commodity components used in its calculation of PEPL storage injection costs.

SECTION 4. - KIRKSVILLE AREA

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RECOMMENDATION – ATMOS ENERGY CORPORATION

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 1 (SECTIONS 1-4)

ALL AREAS	Filed Balances for 2008-2009 (Ending 8-31-09)	Staff Adjustments	Staff Recommended Ending Balances for 2008-2009
Southeast Area:			
Demand ACA	(\$634,905) (1)	\$0	(\$634,905)
Commodity ACA	(\$3,762,136) (2)	\$1,387 (A) \$8,531(B)	(\$3,752,218)
Kirksville Area:			
Demand ACA	\$22,071	\$0	\$22,071
Commodity ACA	(\$896,044)	\$0 (A) \$1,570(B)	(\$894,474)
West Area:			
Demand ACA	\$44,403 (3)	\$0	\$44,403
Commodity ACA	(\$718,360) (4)	(\$13,964) (A) (\$81,852) (C)	(\$814,176)
Northeast Area:			
Demand ACA	\$33,803	\$0	\$33,803
Commodity ACA	(\$2,549,115)	(\$349,015) (A) \$2,725 (B) (\$9,464) (B) (\$413,165) (C)	(\$3,318,034)

Notes to Staff Adjustments:

- 1) Combined Semo and Neelyville Demand ACA balances - (\$644,221) + \$9,316
 - 2) Combined Semo and Neelyville Commodity ACA balances - (\$3,681,082) + (\$81,054)
 - 3) Combined Butler and Rich-Hill/Hume Demand ACA balances - \$60,266 + (\$16,791) + \$928
 - 4) Combined Butler and Rich-Hill/Hume Commodity ACA balances - (\$760,682) + \$48,371 + (\$6,049)
- A) ACA beginning balances August 31, 2008 adjusted to prior year ending balances (Exhibit A)
B) Cash-out - Scheduling Fee & General Mills
C) Affiliated transaction

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

EXHIBIT A
SUMMARY OF PRIOR PERIOD ADJUSTMENTS

Prior Period Adjustments	8/31/08 Ending Balances Per Filing for 2007-2008	Staff Adjustments	8-31-08 Revised Ending Balances for 2007-2008
Southeast Area:			
Demand ACA	(\$433,575) (1)	\$0	(\$433,575)
Commodity ACA	(\$2,672,851) (2)	\$1,387(A)(A1)	(\$2,671,464)
Kirksville Area:			
Demand ACA	(\$63,384)	\$0	(\$63,384)
Commodity ACA	(\$594,196)	\$0	(\$594,196)
West Area:			
Demand ACA	\$23,222 (3)	\$0	\$23,222
Commodity ACA	(\$340,186) (4)	(\$13,964) (A)(A2)	(\$354,150)
Northeast Area:			
Demand ACA	(\$413,769)	\$0	(\$413,769)
Commodity ACA	(\$774,056)	(\$349,015) (A)(A3)	(\$1,123,071)

Notes to Staff Adjustments:

- A) ACA beginning balances August 31, 2008, adjusted to prior year ending balances.
- 1) (\$416,575) Semo + (\$17,000) Neelyville
- 2) (\$2,643,834) Semo + (29,017) Neelyville
- 3) (\$38,190) Butler + \$61,412 Rich-Hill
- 4) (\$214,329) Butler + (\$125,857) Rich-Hill
- A1) 2006-07 ACA \$1,387 Supply allocation.
- A2) 2007-08 ACA (\$13,964) *Affiliated transaction (still pending)*
- A3) 2007-08 ACA (\$349,015) *Affiliated transaction (still pending)*

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of PGA/ACA filing of Atmos)
Energy Corporation for the West Area (Old)
Butler), West Area (Old Greeley),)
Southeastern Area (Old SEMO), Southeastern)
Area (Old Neelyville), Kirksville Area, and in)
the Northeastern Area.)

Case No. GR-2009-0417

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

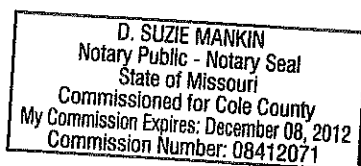
David M. Sommerer, being of lawful age, on his oath states: that as a utility Regulatory Manager in the Procurement Analysis Department of the Utility Services Division, he has participated in the preparation of the foregoing report, consisting of 11 pages to be presented in the above case; that he has verified that the following Staff Memorandum was prepared by himself and Staff of the Commission that have knowledge of the matters set forth as described below; that he has verified with each of the Staff members listed below that the matters set forth in the Staff Memorandum are true and correct to the best of his knowledge and belief,

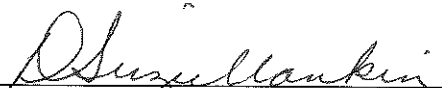
David M. Sommerer, Manager - Affiliated Transactions
Lesa Jenkins, P.E., Regulatory Engineer – Reliability Analysis & Gas Supply Planning
Kwang Choe, Ph.D., Regulatory Economist - Hedging
Derick Miles, Utility Engineering Specialist – Reliability Analysis & Gas Supply Planning
Phil Lock, Regulatory Auditor – Purchased Gas Costs & Billed Revenues

that he has knowledge of the matters set forth in such report and that such matters are true to the best of his knowledge and belief.


David M. Sommerer

Subscribed and sworn to before me this 30th day of December, 2010.




Notary Public