BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Atmos Energy Corporation's Tariff Revision Designed to Consolidate Rates and Implement a General Rate Increase for Natural Gas Service in the Missouri Service Area of the Company	))))	Case No. GR-2006-0387

ANNUAL REPORT OF ATMOS ENERGY CORPORATION REGARDING THE COMPANY'S FIXED DELIVERY CHARGE RATE DESIGN AND ITS IMPACT ON ENERGY EFFICIENCY AND CONSERVATION

A. BACKGROUND

Pursuant to the Commission's Report and Order ("Order") issued in this matter on February 22, and effective March 4, 2007, Atmos Energy Corporation ("Atmos" or "Company") is submitting its Second Annual Report regarding the Company's fixed delivery charge rate design and its impact on energy efficiency and conservation. The First Annual Report was submitted November 24, 2008 and accepted by the Commission on February 21, 2009. This Second Annual Report provides data and narrative that incorporates parameters previously identified by the Collaborative for evaluating the program, including: program participation, increased affordability, arrears, late payments, disconnects/reconnects, uncollectibles, customer usage, and payments.

B. REPORT

1. Overview

During the second program year the Company allocated an additional $172,775 to the three energy efficiency and conservation program components as recommended by the Collaborative. For the third program year another $167,410 has been allocated, bringing the total commitment to over one-half million dollars. The straight fixed variable rate design for our residential and small commercial customers continues to align the customer's and Company's interest and allows the Company to pursue energy efficiency/conservation programs without losing margins to reduced natural gas usage. Incenting and encouraging these customer classes to reduce their natural gas usage is a win/win for the customer and the Company.

2. Energy Efficiency & Conservation Program Highlights

While our first program year focused on establishing the programs, the second year has seen a marked increased in participation and the expenditure of funds. Fifty-seven (57) low-income homes were weatherized, 85 high efficiency furnace rebates were issued, and nine presentations were made to elementary school children throughout our service area. These numbers reflect percentage increases of between 185% and 475% over our first year production. With production up naturally expenditures also showed a marked increase. The following table provides the results for the first and second program years.

	Rebates			**Weatherization**			**Customer Education**		
Program Year	*Allocation*	*Expended*	*Rebates Issued*	*Allocation*	*Expended*	*Homes Weatherized*	*Allocation*	*Expended*	*Schools Served*
2007	$60,000	$11,500	46	$100,000	$16,859	12	$5,000	$2,282	3
2008	60,000	21,250	85	100,000	133,766	57	12,775	5,112	9
Totals	$120,000	$32,750	131	$200,000	$150,625	69	$17,775	$7,394	12

In an effort to determine the impact of the *High Efficiency Space Heating Rebates*, consumption data was weather normalized for those premises that we had at least a year of consumption data after the rebates were received. The results indicated that the average rebate customer experiences a 16.5% to 17.5% reduction in natural gas consumption over what they were using prior to the furnace replacement. The average rebate customer was using 820 Ccf in 2007. A 17% reduction would save 139 Ccf annually and depending on the commodity price ($.40 to .90) would result in savings to the customer of $55 to $140 annually. Individual results may vary due to personal preferences of the customer, weather, or the commodity price. Other data about the 85 customers that received rebates during the second program year include:

- 81 were homeowners, 3 landlords, and 1 commercial property;
- only one boiler rebate was issued;
- 42 rebates issued in the Northeast District, 27 in the Southeast, & 16 in the West; and

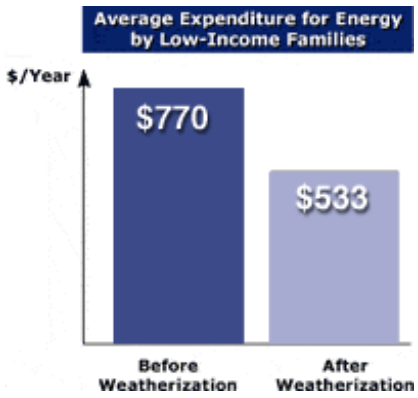
- the AFUE rating for old furnaces was 69.3 while the replacement furnaces had an AFUE rating of 93.2 for a 34.4% efficiency gain.

Even with increased production the rebate program still has a significant balance. For year three, the Collaborative has agreed to add rebates for water heaters ($50 for tank and $200 for tankless) and programmable thermostats ($25). Combined with a media campaign and increased outreach many more customers should be able to enjoy increased energy efficiency in their homes.

In summary, High Efficiency Space Heating Rebates have provided significant energy savings to the participants. With the expansion of the rebates and greater outreach we hope to have even better results after our third program year.

The *Low-Income Home Weatherization Program* experienced the greatest growth in production (57 vs. 12), as well as, expenditures during the second year of the program. A nearly eight fold increase in spending and a 4.75 increase in the number of homes weatherized has resulted in the program achieving a production capacity equal to the funds available and the ability of the local Community Action Agencies (CAAs) to complete the weatherization projects.

Since Atmos is not provided the customer specific information for the Weatherization clients, we consulted the U.S. Department of Energy website to determine energy savings for Weatherization clients. According to a 2002 study conducted for the U.S. Department of Energy, the average expenditure for energy by low-income families is reduced by over 30% (see chart). For natural gas customers this number could vary significant depending on the price of the commodity during any given year.



(http://apps1.eere.energy.gov/weatherization/reducing.cfm)

Although the precise savings for our customers may not be able to be calculated, this national effort with over three decades of results is widely recognized as an effective program for reducing energy consumption and bills for our low-income families. The massive increase in Federal funding as a result of the stimulus bill passed this past winter by Congress is a testimonial to the effectiveness of this program in not only reducing energy consumption but also making it more affordable for low-income families.

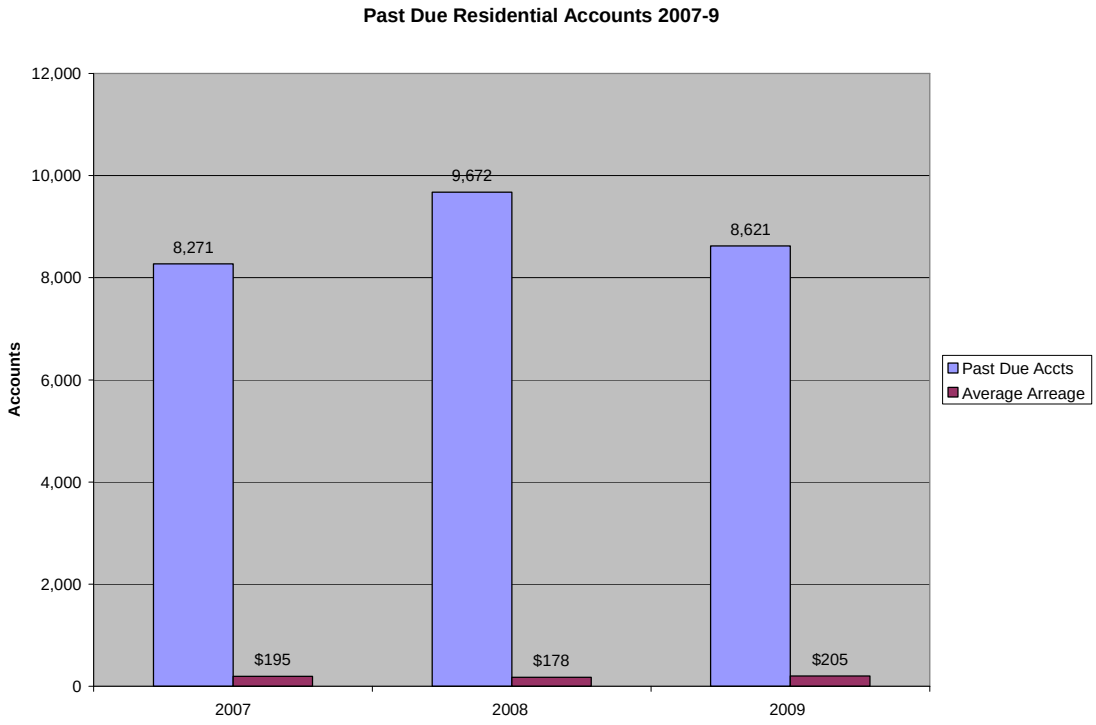
The product of this increase in funding resulted in Atmos as well as most other energy providers in Missouri seeking a one-time variance in their weatherization programs. The variance allows the Missouri Department of Natural Resources (DNR) and their weatherization providers to provide minor home repairs not to exceed $600 per home and to purchase and or provide equipment, staffing, training, administration, space, and outreach. Using utility funds to cover such expenses will allow for the DNR and CAAs to expend these federal funds in a timely and effective manner. The variance expires on June 30,2010. The third year allocation for this program is $102,410 and, when combined with the carry-over balance from previous years, provides over $140,000 for this component.

While the *Customer Education* component of the Program focused on ramp up in the first year, the second year saw a three fold (9 vs. 3) increase in the number of presentations made to elementary students (4^{th} – 6^{th} grades). A total of 930 students heard the presentation this program year. Elementary schools in Schuyler, Butler, and Cape Girardeau counties were served. At least one school in each of our rate districts were served this year. Expenditures more than doubled over the first program year; however there remains a significant carryover. The third year allocation is $5,000. Outreach to schools throughout our service areas will continue and hopefully even more programs can be delivered during the third year of the program.

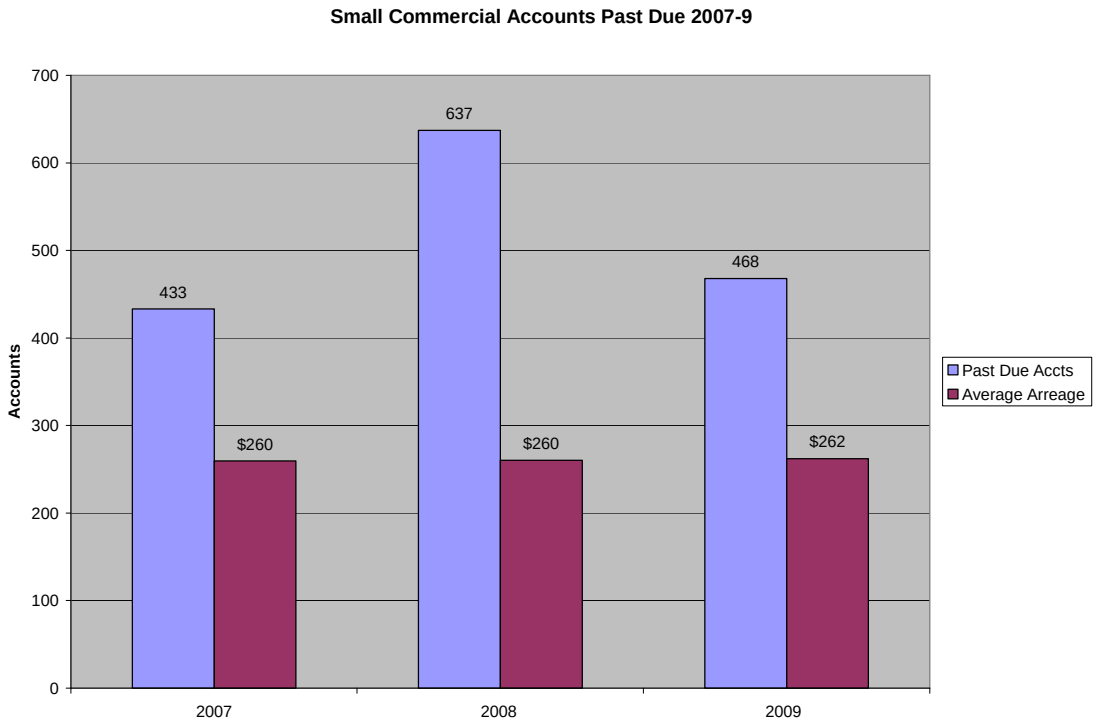
3. Other Matrices

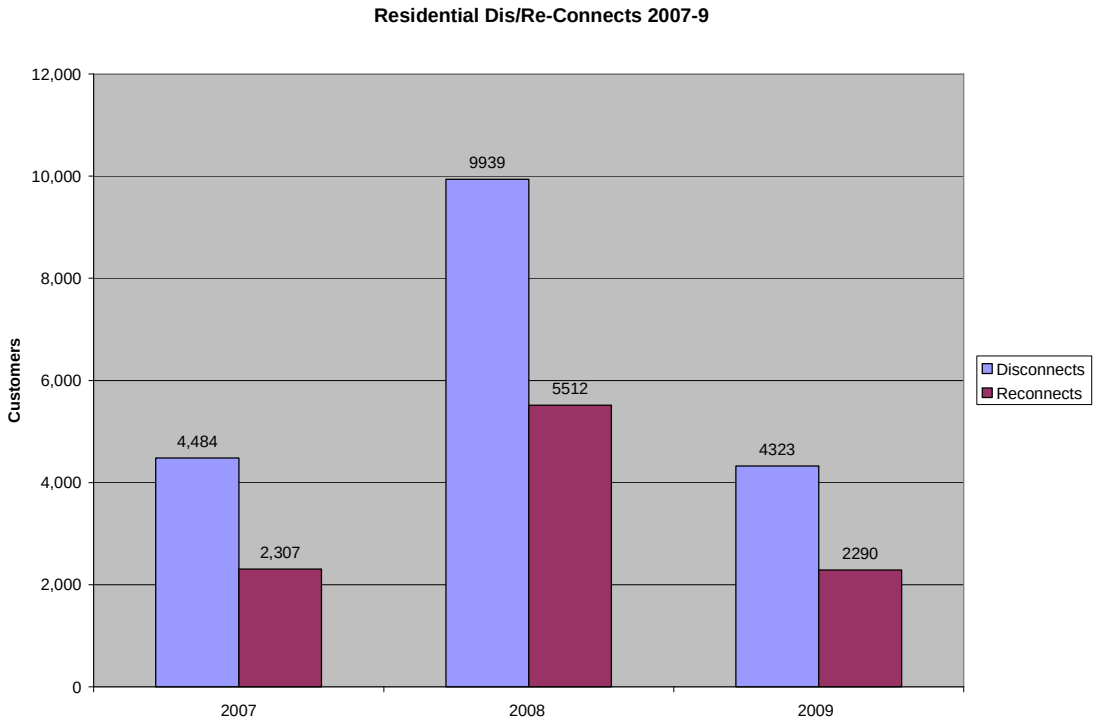
Several other matrices were examined as a part of this report, including late payments (past due accounts), arrears, and disconnects/reconnects. The following charts provide a graphic representation of these data sets for the years ending March 31, 2007 – 2009. Where possible, data have been separated by customer class (residential and small commercial). The first year represents the results prior to implementation of the straight fixed variable rate design for our residential and small

commercial customers, while 2008 and 2009 are the results subsequent to rate design implementation.

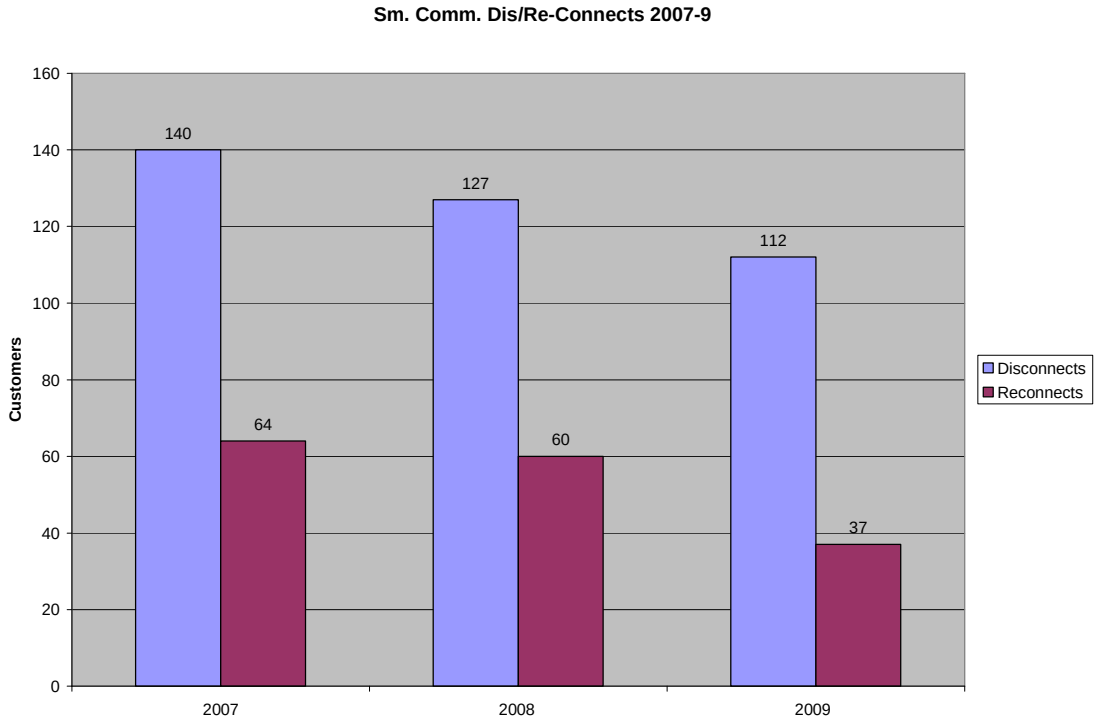


Past due accounts for residential and small commercial customers spiked in 2008 while the average arrear either dropped or remained constant. In 2009 past due accounts dropped back to 2007 levels and arrears rose somewhat.

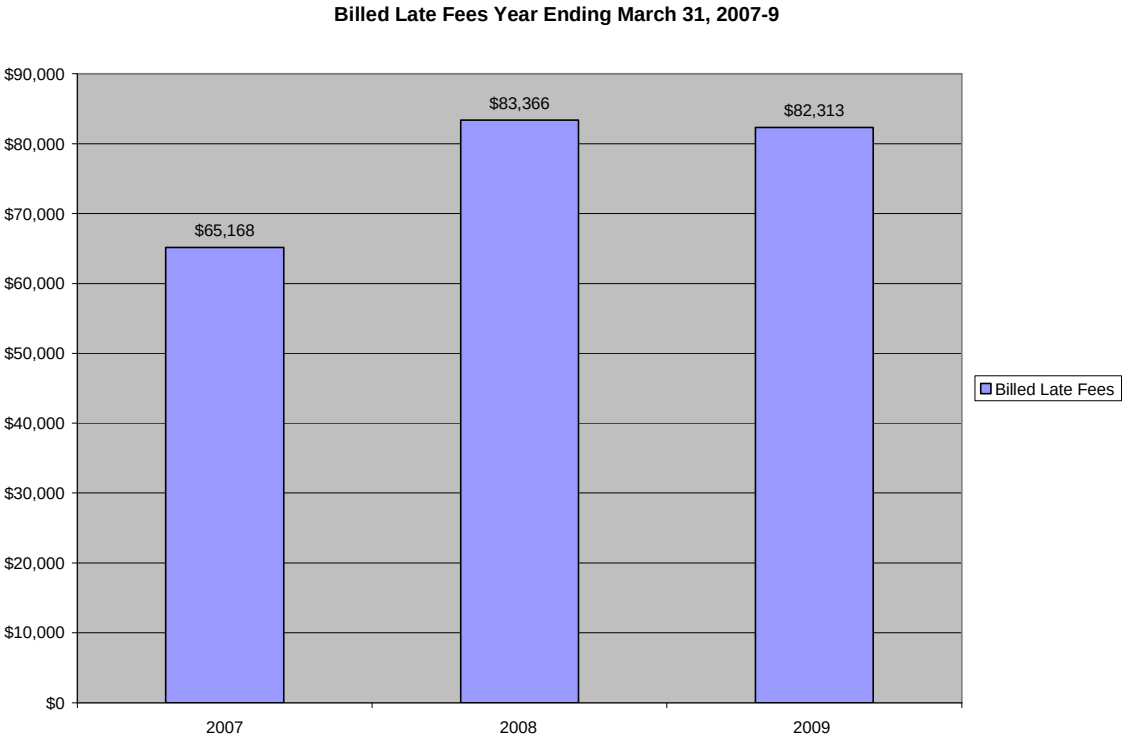




While residential disconnects/reconnects peaked in 2008 and dropped back below 2007 levels in 2009, the percentage reconnected actually increased over the 2007 rate. For our small commercial customers there has been a steady decline in disconnects.



Billed late fees are indicative of late payment activity. Billed late fees increased nearly 28% over 2007 levels in 2008 and dropped back slightly in 2009.



None of these charts should be considered as supporting or rejecting straight fixed variable rate design. Each of these measures are more directly impacted by the commodity price, weather, the economy and how aggressively the Company pursues collections. For instance, commodity price run up in the summer of 2008 led to significantly higher gas costs during the winter heating season (November 2008 – March 2009). The winter was slightly colder than normal. And, on top of this, the economy begins entering the worse recession since the Great Depression during this same period. This situation should have resulted in more past due accounts, higher arrears, fewer reconnects, and more late payments. The charts do not indicate this. In fact, only the average arrear amount for residential customers increased between 2008 and 2009. When only 20% (even less in the winter months) of a customer's bill is in a fixed charge it is difficult to imagine a scenario where these measures would be meaningfully impacted by the rate design. It should also be noted that declining customer usage continues in Missouri. Since the implementation of the current rate design, average residential customer usage (on a weather-normalized basis) has declined almost 1.6% (60.13 Mcf vs. 59.15 Mcf).

4. Implementation of the Fixed Delivery Charge Rate Design

As noted in the first report, two primary concerns existed concerning the implementation of the fixed delivery charge rate design – customer complaints and large numbers of customers leaving the system. Neither concern materialized, as noted in the first report and remains so as of this date. Complaints concerning the rate design have not been recorded with the call center or local office personnel, beyond the handful noted in the first report. The following table provides the active residential customers as of April 2005 thru April 2009. Since rate design implementation the rate of attrition has actually decreased compared with the attrition that was being experienced in the year prior to the new rate design taking affect. It can reasonably be concluded that the initial concerns have not come to fruition.

Residential Customers - Active April 2005 thru 2009

Active Accounts	Apr-05	Apr-06	Apr-07	Apr-08	Apr-09
Residential	47,921	46,959	46,492	45,783	45,352
Change		962	467	709	431
%age Change		2.0%	1.0%	1.5%	0.9%

5. Conclusion

With another year of experience and better data, it is even more apparent that the new rate design continues to smooth customer bills during the winter and provide the framework for a comprehensive and effective Energy Efficiency & Conservation Program. With the input of Collaborative members, the Energy Efficiency & Conservation Program continues to be refined and improved. Customer complaints and residential attrition have not materialized, but the alignment of customers' interests in more stable energy bills and the company's interest in stable revenues continues.

Dated: December 1, 2009