

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Atmos Energy Corporation's)
Filing for Purchased Gas Adjustments in the) Case No. GR-2007-0403
2006-2007 Period.)

**ATMOS ENERGY CORPORATION'S
RESPONSE TO STAFF RECOMMENDATION**

COMES NOW Atmos Energy Corporation ("Atmos" or "Company"), and pursuant to 4 CSR 240-2.080 and the Commission's Order Directing Response issued on January 5, 2009 states its response to the Staff's Recommendation filed on December 29, 2008 as follows:

On December 29, 2008 the Commission Staff filed its recommendation following completion of the audit of the 2006-2007 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 2006-2007 period. The Company will respond to various issues identified by Staff in paragraphs corresponding to those sections contained in the Staff Memorandum.

SECTION 1: ATMOS ENERGY CORPORATION, GENERAL

Staff made the following recommendations with regard to the overall Atmos Energy Corporation:

"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. Adjust the gas costs for the Consolidated district (Areas P& U) by \$100,715 as shown in Section 3 - Table 2 and by \$3,243 for the Greeley District as shown in Section 4 -Table 3.

Additionally, respond to the RFP issues and recommendations in the Affiliate Transaction section of this Memorandum.

3. Respond to Staff's comments in the Hedging section of this Memorandum.
4. Revise the hedging cost allocation to adjust hedging costs for the following: Kirksville (\$7,800), SEMO \$5,700, Consolidated \$1,388, Neelyville \$14, Greeley \$73 and Butler \$625. These adjustments are included in the tables located in Section 2 – Table 1, Section 3 – Table 2, and Section 4 – Table 3.
5. Adjust the cash-out amounts for the following: Kirksville (\$59), Consolidated (\$3,290) and SEMO (\$2,916). These adjustments are included in the tables located in Section 2 – Table 1 and Section 3 – Table 2.
6. File a written response to the recommendations included herein within 30 days.” (Staff Memorandum, pp. 11-12.)

ATMOS REPSONSE TO GENERAL RECOMMENDATIONS RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

The Company discussed Staff's comments regarding the Company's reliability and gas supply planning processes with Staff on January 30, 2009.

A. Atmos Peak Day Analysis

1. Estimated Requirements

The Company reviewed Staff's comments estimated requirements, and the Company believes there are no issues that need to be addressed in this area.

2. Reserve Margins

Staff's comments regarding the reserve margins were also reviewed and the Company believes this issue has also been resolved.

3. Stateline Meter Problems

Staff's comments regarding the Stateline meter issue were also reviewed and the Company believes this issue has been resolved.

B. Supply Planning and Reliability

1. Staff's comments regarding supply planning and reliability, including the propane plant, were also reviewed and the Company believes this issue was also resolved.

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AFFILIATE TRANSACTIONS

Atmos agrees with Staff's description of the Asset Management Agreements (AMA) that are in place for the Consolidated area, Greeley, and Piedmont areas. However, Atmos has serious disagreements with Staff over the Affiliated Transaction Adjustments proposed in this case related to the Asset Management Agreements and gas supply contracts with AEM. For the reasons explained herein, the Staff should reconsider its proposed Affiliated Transactions Adjustments in this proceeding.

Atmos will consider ** _____

_____** (Staff Memorandum, p. 7) In addition, Atmos will consider ** _____

_____** Atmos will also consider ** _____

_____.**

Atmos will also consider the Staff's recommendation that ** _____

STAFF'S PROPOSED AFFILIATED TRANSACTIONS ADJUSTMENTS

** _____

_____**

Such competitive bidding is required by 4 CSR 240-40.016, unless the regulated company can demonstrate why competitive bids were neither necessary or appropriate.

4 CSR 240-40.016(4)(A) states as follows:

When a regulated gas corporation purchases . . . goods or services from an affiliated entity, the regulated gas corporation shall either obtain competitive bids for such . . . goods or services or demonstrate why competitive bids were neither necessary nor appropriate.

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[illegible]

The Missouri Court of Appeals recently reviewed a similar situation involving the issue of whether an unregulated affiliate of an electric company was required to sell its services to a regulated affiliate company at its cost without incurring a profit. The Court held that such a requirement to sell to the affiliated regulated company at cost “would have resulted in the [the unregulated affiliated company] board’s violating its fiduciary duty . . . to manage the corporate business solely in accord with the corporation’s interest.” *State ex rel. Public Counsel v. Public Service Commission*, WD 69259 (consolidated with WD 69270 and WD 69297)(Slip Opinion, p. 18)(Filed on January 13, 2009).

[illegible]

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**POSSIBLE VIOLATIONS OF FERC POSTING AND COMPETITIVE BIDDING
REGULATIONS FOR PREARRANGED RELEASED FIRM CAPACITY**

Staff has accurately quoted a section from the Atmos 2008 10K filed with the Securities and Exchange Commission related to activities of the FERC to investigate Atmos posting and competitive bidding for pre-arranged released firm capacity on interstate natural gas pipelines. Atmos does not know the final outcome of the FERC investigation of these matters, but it is clear that this investigation is not relevant to this state proceeding since it involves activities related to interstate pipelines.

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, as recommended by Staff.

HEDGING COST ALLOCATIONS (ALL DISTRICTS)

Atmos agrees that the allocation percentages for the Kirksville District should be corrected as proposed by Staff, and that the other districts hedging costs should be adjusted as recommended by Staff.

CASH-OUT PROVISIONS

Atmos is willing to accept the proposed adjustments of Staff related to the Cash-Out provisions since they are immaterial. Atmos issued bill inserts in May 2008 to the affected customers notifying them of the changes in the cash-out provisions for the period of September 2006 to January 2008.

SECTION 2: AREAS S, K, AND B (formerly ANG)

With regard to the former ANG areas, Areas, S, K and B, the Staff has made the following recommendations which are acceptable to Atmos:

“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

| Areas B, K, and S | 8-31-07 Ending Balances per Filing for 2006-2007 | Staff Adjustments | Staff Recommended Ending Balances for 2006-2007 |
|--------------------------------------|---|---|--|
| SEMO District (Area S) | | | |
| Demand ACA | \$1,172,896 | (\$2,939) (E) | \$1,169,957 |
| Commodity ACA | (\$4,655,989) | (\$6,843) (A) (\$65,834) (A) \$5,700 (B) (\$2,916) (C) | (\$4,725,882) |
| Kirksville District (Area K): | | | |
| Demand ACA | \$45,963 | \$0 | \$45,963 |
| Commodity ACA | (\$1,156,409) | \$2,499 (A) (\$35,297) (A) (\$7,800) (B) (\$59) (C) | (\$1,197,066) |
| Butler District (Area B): | | | |
| Demand ACA | \$3,249 | \$0 | \$3,249 |
| Commodity ACA | (\$719,693) | \$37,839 (A) \$34,214 (A) \$625 (B) (\$18,494) (D) | (\$665,509) |

Notes to Staff Adjustments:

- A) ACA beginning balances August 31, 2006 adjusted to prior year ending balances (Exhibit A)
- B) Hedging Cost Allocations
- C) Cash-out Provisions
- D) Butler Storage
- E) Carrying costs

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

The Company will agree to Staff’s proposed adjustment to the beginning balances, hedging cost allocation, cash-out provisions, Butler storage costs and carrying costs as listed in Table 1 on Page 13 of 17 of the Staff Memorandum dated December 29, 2008.

SECTION 3: AREAS P AND U (formerly UNITED CITIES GAS)

With regard to the former United Cities Gas areas, Areas P and U, the Staff has made the recommendations listed below. With the exception of the \$100,715 adjustment (F) related to the

Affiliated Transactions and the adjustment related to the Neelyville allocation, these recommendations are acceptable to the Company. However, for the reasons stated above, the Company must respectfully disagree with the Staff's proposed adjustment related to the Affiliated Transactions. In addition, the Company is presently discussing the issues raised by Staff regarding the Neelyville allocation with the interstate pipeline that serves this district. Atmos believes that an adjustment will be eventually agreed to and flowed back to the benefit of the Company's customers in this district. However, for purposes of this response, Atmos must respectfully disagree with the Staff's proposed adjustment related to the Neelyville allocation at this time.

"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 GAS) Areas P and U | 8-31-07 Ending Balances per Filing for 2006-2007 | Staff Adjustments | Staff Recommended Ending Balances for 2006-2007 |
|--|---|--|--|
| Consolidated District: | | | |
| Demand ACA | (\$346,239) | \$0 | (\$346,239) |
| Commodity ACA | (\$1,493,288) | \$0 (A) \$1,388 (B) (\$3,290) (C) (\$100,715) (F) | (\$1,595,905) |
| Neelyville District: | | | |
| Demand ACA | (\$7,910) | (\$10) (A) | (\$7,920) |
| Commodity ACA | (\$56,277) | \$376 (A) \$14 (B) \$1,387 (D) (\$3,966) (E) | (\$58,466) |

Notes to Staff Adjustments:

A) ACA beginning balances May 31, 2006 adjusted to prior year ending balances (Exhibit A).

B) Hedging

- C) Cash-out
- D) BP cost allocation
- E) Commodity cost allocation – August 2006
- F) Affiliate Transactions

2. File a written response to the recommendations included herein within 30 days.” (Staff Memorandum, p. 15 of 17)

SECTION 4: AREA G (formerly GREELEY GAS)

With regard to the former Greeley Gas area, Area G, Staff has made the recommendations listed below. With the exception of the \$3,243 adjustment (D) related to the Affiliated Transactions, these recommendations are acceptable to the Company. However, for the reasons stated above, the Company must respectfully disagree with the Staff’s proposed adjustment related to the Affiliated Transactions.

“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 | 8-31-07 Ending Balance per 2006-2007 Filing | Staff Adjustments | Staff Recommended Ending Balances for 2006-2007 |
|-------------------------|--|--|--|
| Total ACA Balance (E) | \$54,206 | (\$56,217)(A) \$73 (B) (\$31,506) (C) (\$3,243) (D) | (\$36,687) |

Notes to Staff Adjustments:

- A) ACA beginning balances May 31, 2006 adjusted to prior year ending balances (Exhibit A)
- B) Hedging Cost Allocation
- C) Greeley Storage
- D) Affiliated Transactions
- E) Combined demand balance of \$70,831 + commodity balance of (\$16,625). No interruptible customers on Area G.

2. File a written response to the recommendations included herein within 30 days.”
(Staff Memorandum, p. 16 of 17).

SUMMARY

The Company agrees with most of the adjustments proposed by Staff, with the exception of the Affiliated Transactions Adjustments and the Neelyville Allocation adjustment. The Company strongly disagrees with the Affiliated Transaction Adjustments, as explained more fully herein.

WHEREFORE, the Company respectfully recommends that the Commission schedule a Prehearing Conference for the parties to discuss their differences on the issues discussed herein.

Respectfully submitted,

/s/ James M. Fischer

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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 5th day of February, 2009, to:

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/s/ James M. Fischer

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