

**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 2005-2006 Actual Cost )	Case No. GR-2006-0300
Adjustment )	

**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 10, 2008  
states its response to the Staff's Recommendation filed on December 31, 2007 as follows:

On December 31, 2007 the Commission Staff filed its recommendation following  
completion of the audit of the 2005-2006 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 2005-2006 period. The Company will respond to  
the various issues identified by Staff in the following paragraphs.

**SECTION 1: ATMOS ENERGY CORPORATION, GENERAL**

**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 AND GAS SUPPLY PLANNING

The Company contacted Staff on January 17, 2008 via telephone to discuss Staff's concerns regarding the Company's forecasting and planning processes.

### A. Atmos Regression Analysis

#### 1. Capacity Estimates

The Company discussed Staff's concern in their capacity estimates, supply requirements and reserve margin calculations. The Company believes Staff's concerns were addressed during this call.

#### 2. Supply Requirements

Staff's concerns regarding the supply requirements were also addressed and the Company believes this issue was also resolved.

### B. Reserve Margins

Area G - The Company agreed to evaluate the allocation of capacity between Missouri and Kansas every two to three years as recommended by Staff to ensure the allocation is sufficient to fulfill peak day requirements of the service area.

SEMO - The Company informed Staff that volumes going into Arkansas had also been included in the design day forecast in error and that the error was not discovered until the ACA period had already concluded. Staff was not aware of this issue until after they had made their recommendation. The Company provided an updated study with the necessary corrections to Staff for their evaluation. The Company and Staff had a follow-up phone discussion on January 31, 2008. The Company and Staff agreed that the impact of the error was not material and that no adjustment would be made for the ACA period. The Company has put controls in place to

prevent the error from occurring again. The Company agreed to reevaluate growth for the SEMO district and the impact on the Company's peak day estimate for the next three to five years.

Jackson - The Company agreed to reevaluate its reserve margin and growth estimates for the Jackson area in order to meet the requirements of a peak cold day.

C. Storage – Greeley System

After reviewing the storage transfer internally, it was determined that the dollar amount associated with this withdrawal was charged to gas costs and should not have been charged to our customers. The Company agrees with this adjustment which will be made in the February 2008 general ledger as well as reducing commodity gas costs in the 2007/2008 ACA file to eliminate this issue. The error was a result of miscommunication between Departments within the Company.

D. Propane

The Company will continue to monitor the capacity levels in the propane holding tanks during the 2007/2008 winter season as back-up to peak day service.

**CAPACITY RELEASE (ALL DISTRICTS)**

The Company will agree to more closely scrutinize the capacity release procedures.

**PROFESSIONAL SERVICES (ALL DISTRICTS)**

Travel expenses associated with Staff's audit of the 2004-2005 external audit workpapers were discussed prior to Staff's travel to Dallas. At the time it was agreed verbally that we would include these costs in the ACA but the Company will agree to transfer these costs from the ACA into base rates.

## **RECOMMENDATION – ATMOS ENERGY CORPORATION, GENERAL**

As detailed above, the Company will agree with Staff's recommendations and will continue to monitor the issues addressed in this case.

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

#### **BEGINNING BALANCES AUGUST 31, 2005**

The Annual Cost Adjustment (ACA) must be filed in October of the current year. Staff's audit findings are not agreed upon until 18-24 months later and the interest calculation based upon Staff's balances will always need to be adjusted. In the past the Company has agreed upon adjustments in the ACA filing of the current year. However, the ending balances will never align with Staff's ending balances in the Stipulation and Agreement, as the Company has since filed another ACA.

After further review of previous ACA filings it was discovered that adjustments from the previous cases were not included in the Company's ending balances due to the overlap of these cases. These adjustments to the ending balances will be made with the 2007/2008 ACA filing.

#### **CARRYING COST ON UNDER OR OVER-RECOVERY OF PGA/ACA COSTS**

In accordance with our tariff, the Company changed the methodology of calculating interest on our under / (over) recovery balances. The Company disagrees with Staff's terminology of a miscalculation on the Company's part of these interest charges. Again, due to the timing of Staff's completed audit versus the actual ACA filing, there will always be adjustments to the interest calculation.

However, the Company will agree to Staff adjustments as provided in their workpapers and as detailed on page 8 of 12 of the Official Case File Memorandum dated December 31, 2007.

## **BUTLER STORAGE**

Atmos agrees with Staff's overall storage injection costs reduction of (\$32, 511) for the Butler area as detailed on page 8 of 12 of the Official Case File Memorandum dated December 31, 2007.

## **KIRKSVILLE DEMAND COSTS ALLOCATION**

The Company inadvertently omitted the demand costs from the Anadarko invoices for the period of November 2005-March 2006 (excluding December 2005). These gas costs were included in the commodity costs and should be adjusted to reflect Staff's recommendation of \$3,377 for firm and (\$3,377) for interruptible.

## **RECOMMENDATION – AREAS B, K & S**

As detailed above, the Company will agree to Staff's adjustment to interest, storage costs and the demand costs allocation for these service areas of Missouri as listed in Table 1 on Page 9 of 12 of the Official Case Filed Memorandum dated December 31, 2007.

## **SECTION 3: AREAS U AND P (formerly UCGC)**

### **BEGINNING BALANCES**

The Annual Cost Adjustment (ACA) must be filed in October of the current year. Staff's audit findings are not agreed upon until 18-24 months later and the interest calculation based upon Staff's balances will always need to be adjusted. In the past, the Company has included Staff's agreed upon adjustments in the ACA filing of the current year. However, the ending balances will never align with Staff's ending balances in the Stipulation and Agreement, as the Company has since filed another ACA. The adjustments marked as "(A)" in the "Staff Adjustments" columns were made in the 2006/2007 ACA filings but as in the past, the Company

must agree to the ending balances which will never be the same unless the Company and the Staff's audit work are completed in the same calendar year.

#### **CARRYING COSTS ON UNDER OR OVER-RECOVERIES OF PGA/ACA COSTS**

The Company will agree to Staff's adjustment to interest in the commodity carrying costs of (\$2,334) as listed in Table 2 of Page 11 of 12. The Company disagrees with Staff's terminology of a miscalculation on the Company's part of these interest charges. Again, due to the timing of Staff's completed audit versus the actual ACA filing, there will always be adjustments to the interest calculation.

However, the Company will agree to Staff adjustments as provided in their workpapers and as detailed on page 11 of 12 of the Official Case File Memorandum dated December 31, 2007. The Staff adjustments indicated with an "(A)" in "Staff Recommendation" on Page 11 of 12 were made in the 2006/2007 ACA filed in October 2007.

#### **RECOMMENDATION – AREAS P & U (formerly UCGC)**

As indicated in the previous paragraphs, the Company has agreed to Staff adjustments for the 2005/2006 ACA period. The carrying cost adjustments from the previous case, GR-2005-0311, were made in the 2006/2007 ACA as filed in October 2007.

#### **SECTION 4: AREA G (formerly GREELEY GAS)**

##### **BEGINNING BALANCES**

The Annual Cost Adjustment (ACA) must be filed in October of the current year. Staff's audit findings are not agreed upon until 18-24 months later and the interest calculation based upon Staff's balances will always need to be adjusted. In the past, the Company has included Staff's agreed upon adjustments in the current year's ACA filing. However, the ending balances

will never align with Staff's ending balances in the Stipulation and Agreement, as the Company has since filed another ACA.

The (\$3,005) adjustment to storage, marked as "(A)" in "Staff Recommendation" Page 12 of 12 was made in August 2005 (refer to Exhibit IIA) Gas Costs. The Company does not agree that an additional adjustment is necessary.

#### **GREELEY STORAGE**

As stated on page 2 of this response to Staff's Recommendation, the Company agrees with the storage adjustment due to internal miscommunication.

#### **SUMMARY:**

The Company agrees with the adjustments to interest on the (over)/under interest calculations for each service area of Missouri and will make these adjustments in our 2007/2008 balances. The Company also agreed to remove the professional fees from our gas costs. Storage adjustments will be made to the Butler and Greeley areas as well.

#### **GENERAL**

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

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 6<sup>th</sup> day of February, 2008, to:

General Counsel  
Missouri Public Service Commission  
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Jefferson City, Missouri 65102

Office of the Public Counsel  
P. O. Box 2230  
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/s/ James M. Fischer

James M. Fischer