BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Atmos Energy Corporation's 2009-2010 Purchased Gas Adjustment and Actual Cost Adjustment	)))	**Case No. GR-2010-0238**

ATMOS ENERGY CORPORATION'S
<u>RESPONSE TO STAFF RECOMMENDATION</u>

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 4, 2011 states its response to the Staff's Recommendation filed on December 22, 2011 as follows:

On December 22, 2011 the Commission Staff ("Staff") filed its recommendation following completion of the audit of the 2009-2010 Actual Cost Adjustment ("ACA") filing. The Staff's audit consisted of a review and analysis of the billed revenues and actual gas costs for the period of September 1, 2009 to August 31, 2010 for all areas served by the Company in Missouri. The Company will respond to various issues identified by Staff in paragraphs corresponding to those sections contained in the Staff Memorandum.

<u>SECTION 1: ATMOS ENERGY CORPORATION, GENERAL</u>

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. Respond to the RFP and Transaction Confirmation section of this memorandum.
3. Respond to the Storage section for the Piedmont Arcadia (MRT system).
4. Respond to Staff's comments in the Hedging section.

5. Respond to the Cash Out section of this memorandum."

(Staff Memorandum, page 7 of 9.)

RELIABILITY ANALYSIS AND GAS SUPPLY PLAN REVIEW

SUPPLY PLANNING

Supply For Combined Hannibal and Bowling Green Service Areas

In this section, Staff notes that it "believes that the Company has excess supply contracted" for the Hannibal and Bowling Green Service Areas. (Staff Memorandum, page 3 of 9). Staff's explanation and table illustrating this point, both appearing on page 4 of Staff's Memorandum, combine the supply for the Hannibal and Bowling Green areas. As Company previously explained in GR-2009-0417, the capacity for Bowling Green and Hannibal is separate. Staff mistakenly concludes that Atmos could have reduced its baseload and swing nominations and as a result recommends that gas supply planning personnel "consider the level of demand charge costs associated with a full requirements contract, when customer demand can be met using storage withdrawals." (Staff Memorandum, page 4 of 9). In response, the Company is providing the following tables and explanations detailing how the capacity and demand charges work independently for each service area:

TABLE 1

Supply – Consolidated	Winter Dth/ Day	Comments
Hannibal/Canton/Palmyra (HCP)	18,591	Atmos Estimated peak day for 2009/2010 Winter
Hannibal storage contracts	(11,886)	IOS, WS, and FS storage MDWQ is 12,200. Staff reduced this to 11,886 because of ratchets on storage.
Subtotal	6,705	Requirements for flowing supply (Peak Day less supply provided by storage withdrawals rights)
	(3,300)	Propane air mixture
Subtotal	3,405	Net flowing requirements
	(6,435)	Amount of baseload and swing supply under contract.
Subtotal	(3,030)	Net flowing requirements (negative number indicates more supply than required for a peak day)

For the Company's Hannibal service area, contract EFT 11671 for 8,045 DTH includes the transportation space utilized by the IOS contract 11661 (1,610 DTH) effectively reducing the available baseload and swing supply to 6,435 DTH.

The Company took steps during the following ACA period to reduce the excess flowing requirements of 3,030 DTH which included the retirement of the propane air facility following reliability issues with the propane air plant. In addition, the Company procured a winter only (November thru March) backhaul FT contract in the amount of 400 DTH. These steps effectively reduced the Company's reserve margin to approximately two percent and reduced net flowing requirements to -130.

TABLE 2

Supply – Consolidated	Winter Dth/ Day	Comments
Bowling Green	1,804	Atmos Estimated peak day for 2009/2010 Winter
Bowling Green storage contract	(520)	IOS storage MDWQ
Subtotal	1,284	Requirements for flowing supply (Peak Day less supply provided by storage withdrawals rights)
	(2,080)	Amount of baseload and swing supply under contract.
Subtotal	(796)	Net flowing requirements (negative number indicates more supply than required for a peak day).

For the Company's Bowling Green service area, contract SCT 11474 for 2,600 DTH includes the transportation space utilized by the IOS contract 11794 (520 DTH) effectively reducing the available baseload and swing supply to 2,080 DTH. Since the SCT contract only incurs demand charges for the volumes used, there are no additional charges incurred for the excess net flowing requirements of -796.

Storage Balance for Piedmont/Arcadia (MRT System)

With regard to the MRT system, Staff recommends that Atmos "evaluate its planned storage balances for October and November to allow it to make injections should it experience warm or extremely warm weather in these months." (Staff Memorandum, page 5 of 9). The Company agrees with Staff's recommendation.

Staff notes: "The Company also sold back 900 Dths in January, resulting in an immaterial loss of $527 and resulting in a total of 5,320 Dth being sold back to the supplier during the winter season." (Staff Memorandum, page 5 of 9). It appears Staff compared the sell back price to the incremental purchase price to arrive at $527. The correct calculation compares the sell back price to the first of month index price, resulting in an immaterial loss of $157.

REQUEST FOR PROPOSALS (RFPs) AND TRANSACTION CONFIRMATIONS

Staff recommends that the Company "review its plans to increase vendor participation in response to the low number of bid responses to RFPs" (Staff Memorandum, page 5 of 9). for the Hannibal/Bowling Green and Piedmont/Arcadia areas. During the course of Staff's audit, the Company has updated Staff regarding the progress made in reaching more potential suppliers and attracting more bids through its RFP website and offering bidders greater flexibility in how they may serve Atmos. For example, in September 2009 the Company sent its Piedmont/Arcadia RFP to 61 potential suppliers and gave bidders the choice of serving this area through a firm supply only or through firm supply and asset management. In February 2011, Atmos issued its Piedmont/Arcadia RFP via email notification to over 300 interested parties. The RFP offered flexibility in term length, soliciting proposals for a one-year, two-year, or three-year agreement for firm supply only or firm supply and asset management. The Piedmont/Arcadia system is located in Wayne County and Iron County with a few thousand customers having annual sales requirements of only 170,000 Dth. The Rich Hill/Hume system serves approximately 400 customers in Bates County MO. The annual sales requirements are 39,000 Dth. Staff may wish to consider that the small size of these two service areas may be a contributing factor in the number of bids received.

Finally, "Staff recommends that the Company evaluate the requirements it must have in each final transaction confirmation" as well as "carefully review the confirmations to ensure that they reflect the terms of the gas being purchased." (Staff Memorandum, page 5 of 9). The Company agrees with Staff's recommendations.

HEDGING

Staff provided four recommendations for Atmos to consider regarding hedging activities:

1. Continue to monitor the market movements diligently;

2. Employ disciplined as well as discretionary approaches in its hedging practices;

3. Consider the possibility of expanding its gas portfolio to include physical as well as financial hedges, in addition to storage, that more closely track physical price risk; and

4. Carefully consider looking at longer term time horizons for establishing hedges.

Atmos routinely evaluates its hedging practices to achieve price stability for a portion of its winter natural gas requirements and to insulate its customers from some of the volatility that characterizes natural gas commodity markets. Atmos works with its consultant, Gelber & Associates (Gelber), for market guidance. Gelber's analysis could include, but is not limited to, the following: historical intra-month pricing trends, near-term pricing patterns, weather outlook, current and future expectations for storage levels (derived from residential, commercial and industrial demand versus production and imports), economic factors driving market sentiment, EIA reporting, interest rates, currency valuation and inflationary principles.

Atmos employs both disciplined as well as discretionary components in its hedging plan. Atmos implements hedges from April through October. Gelber provides the days on which to hedge as well as the target percent of expected winter purchases to hedge. In addition, Atmos has the ability to suspend hedging entirely if market conditions warrant.

With the changes in the market place due to increased supply from shale, pipeline development and increased transportation capacity, Atmos evaluated price movements to determine if there is a strong relationship between the NYMEX Henry Hub (the index Atmos uses to financially hedge) and several regional indices for Missouri. These indices included ANR

Pipeline Oklahoma (ANR OK), Natural Gas Pipeline Co. of America Midcontinent zone (NGPL Midcon), Natural Gas Pipeline Co. of American Texas/Oklahoma (NGPL TXOK), Panhandle Eastern Pipe Line Co. Texas-Oklahoma Mainline (PEPL TX OK) and Texas Eastern Transmission Corp. East Texas Zone (TETCO STX). The Company compared the monthly IF Henry Hub price to the IF price of each stated index over the past two years. The overall correlation between IF Henry Hub and the other indexes are:

TABLE 3

	Inside Ferc (Average Basis)					Inside Ferc (Correlation to Henry Hub)				
Basis	**ANR Ok**	**NGPL MIDCON**	**NGPL TXOK**	**PEPL TX OK**	**TETCO STX**	**ANR Ok**	**NGPL MIDCON**	**NGPL TXOK**	**PEPL TX OK**	**TETCO STX**
2010	$0.2275	$0.2283	$0.1283	$0.2275	$0.1567	98%	98%	100%	98%	100%
2011	$0.1233	$0.1250	$0.0717	$0.1517	$0.1292	99%	99%	99%	98%	100%
2010-2011	$0.1754	$0.1767	$0.1000	$0.1896	$0.1429	**98%**	**98%**	**99%**	**98%**	**100%**

With the correlation between IF Henry Hub and the regional price indices meeting or exceeding 98%, hedging based on the NYMEX Henry Hub index will likely produce the same or substantially similar results to hedging based on the regional price indices.

As part of the ongoing implementation of the Dodd–Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), the Commodity Futures Trading Commission (“CFTC”) is drafting new regulations that may dramatically change the manner in which all companies, including Atmos, hedge natural gas. Last year, Atmos advised Staff that the CFTC might ultimately enact rules that would require Atmos to post margin, clear over-the-counter instruments or otherwise impose new and unforeseeable requirements that fundamentally change the way Atmos conducts its hedging program. While a number of key Dodd-Frank provisions have still not been the subject of a CFTC Final Rule, some Final Rules have been issued.

- Atmos will be required to monitor its hedging positions and comply with Position Limits on Henry Hub Natural Gas ("HH NG") contracts. While there is a limit (based on total estimated deliverable supply) on how many HH NG contracts Atmos may hold at any one time, Atmos does not anticipate that this limit will affect its current hedging program.
- All entities, including Atmos, have new real-time reporting requirements when they enter into swaps. Only one counterparty is required to report per swap, but the rules governing which counterparty must report are dependent upon the Dodd-Frank classification of swap counterparties, which is still to be determined by a separate rulemaking.
- The CFTC has also imposed new swap data recordkeeping requirements which will affect all entities that engage in swaps, including Atmos.

Once the full impact to Atmos of Dodd–Frank is known, Atmos may be unable to enter into transactions greater than a one year time horizon if the Final Rules impose unreasonable cost.

CASH-OUT PROVISIONS

The Company accepts the Staff's recommendations in this section. The Company agrees to price out monthly imbalances using the Natural Gas Week published index price for any week beginning in the calendar month.

SECTION 2 – NORTHEAST AREA

Staff recommends that Atmos evaluate storage discrepancies for PEPL, TETCO and NGPL. The Company has adopted Staff's recommendation and agrees with Staff's findings in this section. The Company's evaluation also found that the adjustments identified by Staff were corrected when the associated volumes of storage gas were withdrawn from storage and delivered to customers during the subsequent winter period. Additionally, we have implemented a formula based calculation of fuel loss on each NGPL invoice as recommended by Staff.

SECTION 3- SOUTHEAST (SEMO) AREA

The Company accepts the Staff's recommendations in this section. The Company has implemented a formula based calculation of fuel loss on each NGPL invoice as suggested by Staff.

EFFECT OF ORDER IN GR-2009-0417

When it filed its recommendation in this case, Staff committed to update the ACA table for Case No. GR-2010-0238 after it completed the update of the ACA table in Case No. GR-2009-0417 pursuant to the Commission's December 21 order in that case. (Staff Recommendation, page 1 of 2). On January 6, 2012, Staff filed its updated ACA table in Case No. GR-2009-0417. On January 18, 2012, the Commission issued its Order Establishing Ending ACA Balances, giving effect to the Commission's findings in Case No. GR-2009-0417 and Case No. GR-2008-0364 as well as the settlement in Case No. GR-2007-0403. The Commission's Report and Order in Case No. GR-2009-0417 became effective on January 20, 2012. The

Company notes that pursuant to the Commission's January 20th Order, Table 1 on page 9 of Staff's Memorandum should be adjusted to reflect the correct ending balances as well as to exclude the $337,226 affiliate transactions adjustment that was rejected by this Commission.

SUMMARY

In summary, the Company agrees with most of the recommendations proposed by Staff, and reserves the right to further review and respond to Staff when it files its updated balances giving effect to the Commission's orders.

WHEREFORE, the Company respectfully submits its preliminary Response and recommends that the Commission order Staff to file an updated ACA table for this case as set forth above.

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 23rd day of January, 2011, to:

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/s/ James M. Fischer

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