

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GO-2011-0281, Atmos Energy Corporation

FROM: Kimberly Bolin, Auditing Department
Arthur W. Rice, PE, Engineering and Management Services Department
Derick Miles, PE, Procurement Analysis Department
Phil S. Lock, Procurement Analysis Department

/s/ Kimberly Bolin 4/12/11
Auditing Department/Date

/s/ Lera Shemwell 4/12/11
Staff Counsel Division/Date

SUBJECT: Staff Recommendation on Atmos Energy Corporation's Application for Authority
to Sell its Propane Peak Shaving Plant facility located in Hannibal, Missouri

DATE: April 6, 2011

On March 4, 2011, pursuant to 4 CSR 240-3.210, Atmos Energy Corporation (Atmos or Company) filed its *Application and Motion for Expedited Treatment and Waiver* (of 4 CSR 240-4.020(2), if necessary) (Application) with the Missouri Public Service Commission (Commission) requesting that the Commission grant Atmos authority to sell part of its works or system. Atmos proposes to sell its propane peak shaving plant located in Hannibal, Missouri.

On March 14, 2011, the Commission issued an *Order Directing Staff to File a Recommendation or Status Update*, directing Staff to file either its recommendation or a status report including a date Staff expected to file its recommendation.

On March 25, 2011, Staff replied and notified the Commission that it needed additional time to evaluate the information Atmos provided and to make an informed Recommendation. Staff stated that it expected to file no later than April 29, 2011.

Atmos' Application

According to the Company's Application, the propane peak shaving plant has experienced many maintenance issues over the years. The plant was deemed inoperable during the 2007/2008 ACA period and was temporarily replaced with a peaking supply contract with an interstate pipeline for the 2007/2008 winter. Although operable in the 2008/2009 and 2009/2010 winters, in Spring 2010, the plant suffered extensive damage due to a lightning strike, which rendered the plant unsafe. As a result of the damage and costs for repair/replacements needed to operate the plant safely, Atmos considered other options for reliably serving customers. Additional interstate pipeline capacity became available for delivering supplies to the Hannibal area, and Atmos chose that option. To meet its peak needs, Atmos entered into agreements with Panhandle Eastern Pipe Line Company (Panhandle) to purchase sufficient capacity to

replace what was available from the propane plant. These contracts went into effect for the 2010/2011 winter.

In its Application, Atmos asserts it is no longer economically efficient or necessary to use the plant to serve its Hannibal customers. Consequently the plant is no longer in operation. Atmos has entered into a Bill of Sale and Agreement (Agreement) for certain equipment at the propane plant. This Agreement includes sale of the propane storage tanks and related equipment. Related equipment includes: pumps, compressors, vaporizers and a generator. The building(s) and land are not part of the sale. In a separate agreement, the Company sold the propane gas that was still in storage at the peak shaving plant facility.

Staff Recommendation

The Staff issued Data Requests (DRs) to Atmos addressing the proposed sale of the propane peak shaving plant and the propane that was stored at the plant. Staff has also had discussions with Company personnel. During these discussions, the Company indicated that in early 2010 it obtained cost estimates for repairing the propane plant. The costs estimates resulted in the Company's decision to discontinue operation of the propane equipment and, instead, to provide peak shaving capability by buying capacity on Panhandle and seek a buyer for the propane equipment.

Staff has reviewed this Application and, for the following reasons, is of the opinion that granting this Application would not be detrimental to the public interest, if certain conditions are met:

1. The estimated cost to repair and operate the plant is higher than obtaining gas supply through pipeline contracts.
2. The capacity provided by the plant in order to meet peak day requirements is replaced with pipeline capacity and natural gas supplies.

Staff recommends the Commission's order to include the following conditions:

1. For accounting purposes, the retirement date for the Propane Air Plant shall be recorded as December 31, 2010.
2. The revenue received from the sale of equipment shall be treated as salvage and recorded to the appropriate FERC USOA account or subaccounts as salvage.
3. Any cost of removal incurred by the Company as direct result of activities related to the removal of the equipment sold shall be treated as cost of removal and recorded to the appropriate FERC USOA account or subaccounts.
4. The Company shall make adjustments to the appropriate FERC USOA account or subaccounts to reverse any depreciation recorded since December 31, 2010.

5. The Company shall remove the cost of propane inventory from its books (consistent with the retirement of Propane Air Plant). All propane inventory shall be removed from rate base in the Company's next general rate case filing.
6. The decisions and costs associated with the renegotiated pipeline contract (to replace the propane plant) shall be reviewed for prudence in Atmos' 2010/2011 ACA.

The Staff has verified that this company has filed its annual report and is not delinquent on assessment.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

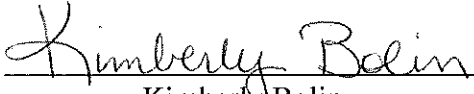
In the Matter of the Application of)
Atmos Energy Corporation for Authority to)
Sell Part of its Works or System Located at)
the Hannibal, Missouri Propane Air Plant)
)

File No. GO-2011-0281

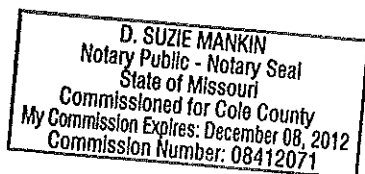
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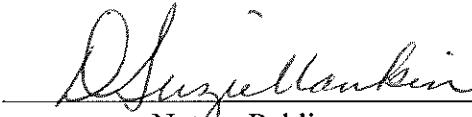
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Kimberly Bolin, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.


Kimberly Bolin

Subscribed and sworn to before me this 12th day of April, 2011.




Notary Public