

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

In the matter of Atmos Energy)	
Corporation's Purchased Gas Adjustment)	
Factors to be Reviewed in Its)	Case No. GR-2001-396
2000-2001 Actual Cost Adjustment.)	

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

COMES NOW Atmos Energy Corporation, and pursuant to the Commission's Order Modifying Procedural Schedule issued on April 11, 2002, states its response to the Staff's Recommendation filed on September 30, 2002, as follows:

1. On September 30, 2002, the Commission Staff filed its recommendation following completion of the audit of the 2000-2001 Actual Cost Adjustment ("ACA") filing for Atmos Energy Corporation. 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 period of September 1, 2000, to August 31, 2001. The Company will respond to the various issues identified by Staff in the following paragraphs.

2. In the "Purchasing Practices—Southeast Missouri Integrated" section of the Staff Recommendation, Staff comments upon the Company's hedging and storage practices as follows:

In the review of Company purchasing practices for the Southeast Missouri Integrated service area, the Staff reviewed the Company's decisions regarding flowing supplies and planned storage withdrawals.

The Staff believes that it was reasonable to expect Atmos to hedge a minimum level of its natural gas purchases for the winter months of the ACA period. The Staff believes 30% of normal requirements, as a minimum level of hedging for each month during the period of November 2000 through March 2001, is reasonable. Normal requirements are the amount of storage withdrawals and

purchases the Company needs to make on a monthly basis in order to meet its demand based upon normal weather. The 30% of normal requirements minimum should not be viewed either as an optimal level or as precedent for future hedging levels, but only as a minimum level that was reasonable and attainable for the winter of 2000/2001. The Staff compared the Company's planned monthly hedged volumes with the monthly 30% of normal requirements. The hedged volumes include storage and fixed price purchases. The Company plan met the 30% threshold for November 2000 through March 2001.

In addition, Staff reviewed Atmos' actual use of the hedged volumes from its storage resources during the winter of 2000/2001. Storage is an integral part of this Company's hedging efforts and must be considered when the hedging plan is developed and implemented. The Company's level of storage withdrawals are affected by the planned level of flowing supplies. Flowing supply means gas that is purchased for current consumption and not taken from storage.

Given the information available to the Company when decisions were made regarding flowing volumes and storage withdrawals for November 2000 through March 2001, Staff believes that Atmos relied too heavily on flowing supplies in January 2001. Staff believes that Atmos could have reasonably avoided much of its customers' exposure to the higher flowing gas costs in January 2001 by following a reasonable approach for planned flowing gas and storage withdrawals for that month. Absent detailed information from the Company on changes to its short term plan for meeting natural gas requirement for the winter months of November 2000 to March 2001, Staff evaluated the Company's actual use of flowing supply, storage gas, and LNG to meet actual requirements, compared to the original plan as modified by revision Staff would have expected the Company to make. This evaluation of the Company plan and the actual weather for the 2000-2001 winter shows that the largest concern is for the January 2001 storage injections and withdrawals. Staff's review shows Atmos' decision for flowing gas and storage withdrawals had an unfavorable economic impact upon customers purchased gas cost in the amount of \$1,309,540 to \$1,315,404. Therefore, the Staff proposes to reduce gas cost by \$1,309,540.

3. The Company strongly disagrees with the above-quoted Staff's comments and disallowance of \$1,309,540 related to storage utilization. A disallowance of this magnitude

would be financially detrimental to the Company's ability to provide reliable service throughout its Missouri service areas. In addition, the Staff's proposed adjustments appear to be based primarily on the use of hindsight. Few LDCs in Missouri were utilizing hedging techniques and storage utilization to an exact pre-determined level during this period, as now recommended as appropriate by Staff. Gas purchasing and storage utilization plans are utilized as tools to plan storage and supply requirements and are reviewed and adjusted throughout the period based on the level of storage utilized each month and the inventory required for future winter months in order to meet the requirements of a late peak day requirement. It is unreasonable and unlawful to hold the Company after-the-fact to a standard that had not been previously articulated or adopted by the Commission or otherwise considered reasonable by the LDC industry, at the time the Company was making its decisions.

The Staff's proposed disallowance of \$1,309,540 related to the Company's use of storage for its Southeast Missouri Integrated system is inappropriate. The Southeast Missouri Integrated system is served by Texas Eastern Pipeline, and Arkansas Western Pipeline. The Company serves over 35,000 customers of which approximately 30,750 are residential customers. Company is contracted for storage service to balance the system usage with first-of-month and incremental daily gas requirements.

Company's load requirements are very heat sensitive due to the residential core customer base and therefore are very difficult to manage on a daily basis. The weather can and does have a significant impact on the amount of gas that may be withdrawn or injected during the course of a month. The contractual nature of the storage services allows Company to preset the nominated daily and/or No-Notice storage service. The withdrawal quantities are determined by the forecasted daily customer's requirements which are subject to daily fluctuations due to actual

weather conditions. As the storage level is depleted, Company is required to make adjustments based on remaining levels to maintain peaking capabilities throughout the winter season. Therefore, since the storage services are primarily used for operational balancing, and Company experienced colder than normal November and December periods, which resulted in heavier than anticipated withdrawals from storage, Company made an operational decision to purchase additional flowing gas for the system during January. The weather for the first week of January was forecasted to be at or below normal and the possibility existed that the trend would continue for a colder than normal January and February. Based upon this possibility, Company made an operational decision to purchase additional flowing gas in December to meet January demand in an effort to protect further erosion of existing storage levels. The actual weather for January was near normal, and with Company's operational decision to purchase additional flowing gas, allowed it to mitigate the risk of inadequate storage in meeting future peaking conditions on the system in February and March. This resulted in a very small quantity of withdrawals in January. In addition to the storage inventory concern stated above, Company was concerned that the price increases that occurred in late 2000 would not stop at the \$10 per MMBtu price (with a colder than normal January) but would continue to increase for incremental supply that would have been required if flowing supplies were added during the month.

For these reasons, the Staff should reconsider its \$1,309,540 disallowance related to the Company's purchasing practices.

4. The Commission Staff also recommends that the Company submit a copy of the Company's policies and procedures for those responsible for nominating natural gas by January 1, 2003. The Company would note that the Commission Staff recently concluded a management audit that included a review of the Company's policies and procedures for nominating natural

gas. The Commission Staff did not make any recommendations for improvement in its nomination processes. The Company therefore believes it would be duplicative to re-submit these policies for a second review by the Commission Staff within a few months of the completion of the management audit.

5. In the "Agency Fees" section of Staff's Recommendation, Staff proposes an adjustment to reduce the SEMO district gas costs by \$5,462 resulting from Agency fees paid to Mississippi River Transmission (MRT). The Company views these per unit fees in the same manner as a premium to index pricing for gas commodity costs and request that staff reconsider this adjustment.

6. In the "Storage" section of Staff's Recommendation, Staff reviewed the activity (injections and withdrawals) of Company's storage inventory with Texas Eastern Pipeline (TETCO), Natural Gas Pipeline (NGPL), and MRT on the Company's SEMO district, with Panhandle Eastern Pipeline (PEPL) on the Butler district, and with ANR on the Kirksville district. Based on Staff's review, Staff adjusted the Company's storage inventory schedule for TETCO and NGPL on the SEMO district and for ANR on the Kirksville district. The Company agrees with the adjustments with the exception of TETCO. The Company requests a copy of Staff's work papers that detail the TETCO adjustment in order to determine its position for the TETCO adjustment.

7. In the "Reliability Analysis" section of Staff's Recommendation, the Company respectfully disagrees with Staff's proposed disallowance of \$12,296 in the Butler/Panhandle Eastern system and a proposed disallowance of \$20,824 in the Piedmont/MRT system. Staff stated the concern that the Company has more storage deliverability and supply deliverability

than needed on a peak cold day and this supply deliverability has fixed demand charges. The Company requests that Staff reconsider these disallowances for the following reasons:

The supply contract with Aquila, which included reservation charges, had been entered into by Associated Natural Gas (ANG) on April 30, 2000. ANG extended the contract through April 30, 2001. Atmos acquired the Butler service area on June 1, 2000. Effective May 1, 2001 through October 31, 2001, the successful bidder for the Butler supply was Anadarko. This contract did not include a reservation charge.

On the Piedmont/MRT system, Atmos maintained all the previous year's capacity and supply arrangements that Associated Natural Gas had in place for the newly acquired gas property until such time as the Company had compiled a historical load profile from which the Company could make prudent capacity and supply decisions.

8. In the "Over-run Gas" section of Staff's Recommendation, the Company respectfully disagrees with Staff's proposed disallowance of \$8,197 in the Kirksville system. Staff stated that since the Company did not meet the requirements of ANR's tolerance level, and overrun charges occurred during the period of October 2000 to April 2001, that the overrun charges should be disallowed. Due to the absence of "real time" measurement data availability on ANR's Electronic Bulletin Board, the Company is unable to access gas flow information until two days following the date of flow. This is a cost of operation for properties served by ANR Pipeline. Therefore, the Company requests that Staff reconsider these disallowances.

9. The Company will accept Staff's other proposed gas cost adjustments discussed in the "Liquidified Natural Gas Services" section, the "Revenues" section, "DCCB Adjustment" section, and "Refunds" section of the Staff Recommendation. In addition, the Company will

accept Staff's recommendation that additional documentation regarding the reliability information be submitted by February 3, 2003.

WHEREFORE, Atmos Energy Corporation respectfully requests the Staff reconsider its position on the gas purchasing practices of the Company and other disallowances, as discussed herein, and further requests that the Commission issue its order consistent with the Company's response herein.

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 30th day of October, 2002, to:

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/s/ James M. Fischer

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