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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

March 6, 2007

IN RE:)
)
ATMOS ENERGY CORPORATION) **Docket No. 06-00222**
ACTUAL COST ADJUSTMENT ("ACA") AUDIT)

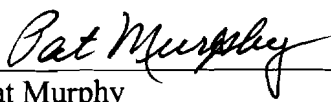
**NOTICE OF FILING BY THE UTILITIES DIVISION OF THE TENNESSEE
REGULATORY AUTHORITY**

Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority ("Authority") gives notice of its filing of Atmos Energy Corporation's ACA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Atmos Energy Corporation (the "Company").
2. The Company's ACA filing was received on August 31, 2006, and the Staff completed its audit of same on March 2, 2007. The original 180-day deadline for the Staff's completion of the audit was extended from February 27, 2007 to March 26, 2007 by mutual consent of the Company and the TRA Staff as provided for in the Purchased Gas Adjustment Rule (1220-4-7-.03 (2)).
3. The Staff's audit revealed no findings. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

4. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the Report and the recommendations contained therein.

Respectfully Submitted:


Pat Murphy
Utilities Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 6th day of March, 2007, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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Pat Murphy

COMPLIANCE AUDIT REPORT
OF
ATMOS ENERGY CORPORATION
ACTUAL COST ADJUSTMENT
DOCKET NO. 06-00222

PREPARED BY
TENNESSEE REGULATORY AUTHORITY
UTILITIES DIVISION
March 2007

EXHIBIT A

COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
ACTUAL COST ADJUSTMENT
DOCKET NO. 06-00222
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I. INTRODUCTION

The subject of this audit is Atmos Energy Corporation's ("Company" or "Atmos") compliance with the Actual Cost Adjustment and Refund Adjustment of the Purchased Gas Adjustment Rule ("PGA Rule") of the Tennessee Regulatory Authority ("TRA" or the "Authority"). The objective of the audit is to determine whether the Purchased Gas Adjustments, which are encompassed by the Actual Cost Adjustment ("ACA") as more fully described in Section IV, for the year ended June 30, 2006 are calculated correctly and are supported by appropriate source documentation.

II. AUDIT OPINION

The Audit Staff ("Staff") concludes that the Purchased Gas Adjustment mechanism as calculated in the Actual Cost Adjustment contained no material misstatements and appears to be working properly and in accordance with the TRA rules for Atmos Energy Corporation.

III. SUMMARY OF COMPANY FILING

The Company filed its annual report of the transactions in the Deferred Gas Costs Account ("ACA Account") for its Tennessee service areas on August 31, 2006. This ACA filing showed \$164,247,813 in total gas costs, with \$177,482,026 being recovered from customers through rates. Adding a beginning balance in the ACA account of positive \$6,139,264 in net under-recovered gas costs from the preceding ACA period and interest due from customers for the current period of \$269,961 resulted in an ACA Account balance at June 30, 2006 of negative \$6,824,989 in over-recovered gas costs. The Company's filing is summarized in the table below:

ATMOS ENERGY CORPORATION				
ACA FILING FOR PERIOD JULY 2005-JUNE 2006				
Line		Union City	Other TN Towns	Total
1	Beginning Balance (July 2005)	\$1,953.35	\$6,137,310.70	\$6,139,264.05
2	Purchased Gas Costs	4,410,769.60	159,837,043.40	164,247,813.00
3	Gas Costs recovered through rates	5,958,578.04	171,523,448.17	177,482,026.21
4	Interest on monthly balances	<u>(38,976.86)</u>	<u>308,937.50</u>	<u>269,960.64</u>
5	Ending Balance (June 2006) (Line 1 + Line 2 – Line 3 + Line 4)	<u>\$(1,584,831.95)</u>	<u>\$(5,240,156.57)</u>	<u>\$ (6,824,988.52)</u>

**A number in () is a negative or credit balance which represents an over-collection of gas costs.

The Company began a refund to its Union City customers and customers in other Tennessee service areas on October 1, 2006, to distribute the balances in the ACA Accounts as of June 30, 2006.

IV. DESCRIPTION OF PURCHASED GAS ADJUSTMENT RULE

Actual Cost Adjustment Audits:

The PGA Rule can be found in Chapter 1220-4-7 of the Rules of the Tennessee Regulatory Authority. The PGA Rule permits a gas company to recover, in a timely manner, the total cost of gas purchased for delivery to its customers and to assure that a company does not over-collect or under-collect gas costs from its customers. The PGA Rule consists of three major components:

1. **The Actual Cost Adjustment (ACA)**
2. **The Gas Charge Adjustment (GCA)**
3. **The Refund Adjustment (RA)**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "true-up" the difference between the actual gas costs and the gas costs recovered from customers through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds. For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A.

Section 1220-4-7-.03(2) of the PGA Rule requires:

Each year, the Company shall file with the [Authority] an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the [Authority] provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This 180 day notification period may be extended by mutual consent of the Company and the [Authority] Staff or by order of the [Authority].

Prudence Audit of Gas Purchases:

Section 1220-4-7-.05 of the PGA Rule requires, unless otherwise ordered by the Authority, an "Audit of Prudence of Gas Purchases" by a qualified consultant. This specialized audit evaluates and reports annually on the prudence of any gas costs included in the PGA. In Docket 97-01364, Atmos Energy was authorized to operate under a Performance-Based Ratemaking Mechanism ("PBR"), beginning April 1, 1999,

and continuing each year unless terminated by the Company or the Authority. For each year that the mechanism is in effect, the requirements of Section 1220-4-7-.05 of the PGA Rule is waived.

V. SCOPE OF ACTUAL COST ADJUSTMENT AUDIT

The ACA audit is a limited compliance audit of the Company's Deferred Gas Cost Account. The audit goal was to verify that the Company's calculations of gas costs incurred and recovered were materially correct,¹ and that the Company is following all Authority orders and directives with respect to its calculation of the ACA Account balance. Also included in this audit is the Company's PGA filing implementing a net refund of the ACA Account balances, effective October 1, 2006. Refer to the ACA Account detail provided in Section III, Summary of Company Filing.

To accomplish the audit goal, Staff reviewed gas supply invoices, as well as supplemental schedules and other source documentation provided by Atmos. Where appropriate, Staff requested additional information to clarify the filing.

VI. BACKGROUND INFORMATION ON COMPANY AND GAS SUPPLIERS

Atmos Energy Corporation, with its corporate headquarters located in Dallas, Texas, has its local offices in Franklin, Tennessee. On October 4, 2002, the Company filed tariffs to officially change its name from United Cities Gas Company to Atmos Energy Corporation. Atmos is a multi-state gas distributor, providing service to customers in twelve cities and surrounding areas in Tennessee. The natural gas used to serve these areas is purchased from four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission (FERC). The interstate pipelines are Tennessee Gas Pipeline (TGP), East Tennessee Natural Gas (ETNG), Texas Gas Transmission Corporation (TGTC), and Texas Eastern Transmission Corporation (TETC).

TGP and ETNG provide service to east Tennessee towns, which include Columbia, Shelbyville, Maryville, Morristown, Elizabethton, Greeneville, Johnson City, Kingsport, Bristol and adjacent areas in Maury, Bedford, Moore, Blount, Hamblen, Sullivan, Carter, Washington, and Greene Counties.

TETC provides service to Atmos in Murfreesboro and Franklin and adjacent areas in Rutherford and Williamson Counties.

TGTC provides service to Atmos in Union City and adjacent areas in Obion County.

¹ The audit goal is not to guarantee that the Company's results are 100% correct. Where it is appropriate, Staff utilizes sampling techniques to determine whether the Company's calculations are materially correct. Material discrepancies would dictate a broadening of the scope of Staff's review.

VII. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

The [A]uthority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The TRA's Utilities Division is responsible for auditing those gas, electric, and water companies under its jurisdiction, to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Pat Murphy and Mike Warner of the Utilities Division conducted this audit.

VIII. ACA FINDINGS

Audit Staff agrees with the ACA Account Balance as calculated by the Company (see Section III). Therefore, there are no findings.

IX. STAFF CONCLUSIONS AND RECOMMENDATIONS

Audit Conclusions

Audit Staff reviewed the gas costs and recoveries of Atmos Energy Corporation for the 12-month period ended June 30, 2006. Based on the Company's filing, the **net balance** in the ACA Account as of June 30, 2006 was a **negative \$6,824,988.52**. This means that as of June 30, 2006 the Company had over-collected this amount from its customers. The net balance is composed of an **over-collection from Union City customers of \$1,584,831.95** and an **over-collection from customers in all Tennessee towns other than Union City of \$5,240,156.57**. Staff recommends approval of the Company's calculated ACA Account balances as filed.

Included in this filing is the asset management payment of \$500,000 for the second year of the agreement between Atmos and its affiliate Atmos Energy Marketing (AEM). Using the allocation percentage between Tennessee and Virginia, Atmos credited \$324,914 to Tennessee ratepayers and \$175,006 to Virginia.

Staff Recommendations

Other than recommending approval of the Company's ACA Account balances, Staff has no further recommendations to put forth in the current ACA audit, based on the following:

In the prior ACA audit report (Docket No. 05-00253), Staff made a number of recommendations. At the Authority Conference held on May 15, 2006, the panel of Directors assigned to that docket approved Staff recommendations with the exception of recommendations 1 through 2 (c). The excepted recommendations addressed Staff's concerns regarding the asset management agreement between Atmos and its affiliate Atmos Energy Marketing.

With regard to these excepted recommendations, the panel instructed the TRA Audit Staff to meet with Atmos to discuss the effects of incorporating the asset management agreement into the Company's Performance Based Ratemaking Rider ("PBR"). Despite the Company's requests for a meeting, Staff has not yet met with Atmos to discuss these issues for two (2) reasons:

1. Similar issues have been raised in Docket No. 05-00258 (Atmos show cause proceeding). It has yet to be decided whether these asset management issues will be addressed in Docket No. 05-00258, Docket No. 05-00253 or some other forum.
2. Atmos' PBR is currently being held in abeyance pending the final outcome of the contested case in Docket No. 01-00704, which covers the plan year ended March 31, 2001. Because this docket has not been resolved, Atmos has not

filed an annual report for transactions contained in its PBR for the last five (5) years.

The panel approved Staff recommendation 2 (d) which was that the Company and Staff submit a proposed revision to the current affiliate rules for Atmos. This has not taken place for the same reasons discussed above.

Recommendations 4 through 6 related to specific deficiencies in the calculation of the ACA Account balance. The Company has complied with these recommendations in the current filing.

APPENDIX A

PGA FORMULA

The computation of the GCA can be broken down into the following formulas:

$$\text{Firm GCA} = \frac{D + \text{DACA}}{\text{SF}} - \text{DB} + \frac{P + T + \text{SR} + \text{CACA}}{\text{ST}} - \text{CB}$$

$$\text{Non-Firm GCA} = \frac{P + T + \text{SR} + \text{CACA}}{\text{ST}} - \text{CB}$$

where

GCA = The Gas Charge Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.

D = The sum of all fixed Gas Costs.

DACA = The demand portion of the ACA.

P = The sum of all commodity/gas charges.

T = The sum of all transportation charges.

SR = The sum of all FERC approved surcharges.

CACA = The commodity portion of the ACA.

DB = The per unit rate of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

CB = The per unit rate of variable gas costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Commission so approves).

SF = Firm Sales.

ST = Total Sales.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{\text{DR1} - \text{DR2}}{\text{SFR}} + \frac{\text{CR1} - \text{CR2} + \text{CR3} + i}{\text{STR}}$$

$$\text{Non-Firm RA} = \frac{\text{CR1} - \text{CR2} + \text{CR3} + i}{\text{STR}}$$

where

- RA = The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
- DR1 = Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
- DR2 = A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
- CR1 = Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
- CR2 = A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
- CR3 = The residual balance of an expired Refund Adjustment.
- i = Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.

SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.