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February 14, 2008

VIA HAND DELIVERY

Eddie Roberson, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

Re: Request of Atmos Energy Corporation for Approval of Contract(s) Regarding Gas Commodity Requirements and Management of Transportation Storage Contracts
TRA Docket No. 08-00024
Stand Energy Corporation's Request for Leave to file Reply and Reply of Stand Energy Corporation to Atmos Energy Corporation's Response to Stand Energy Corporation's Petition to Intervene

Dear Chairman Roberson:

Enclosed you will find the attachment to Stand Energy's Reply that was inadvertently left off of the filing made earlier this afternoon. This filing has also been made electronically.

Please contact me if you need additional information.

Sincerely,
D. Billye Sanders
D. Billye Sanders
Attorney for Stand Energy Corporation

cc: John M. Dosker, Esq.
A. Scott Ross, Esq.
Consumer Advocate and Protection Division
Henry Walker, Esq.

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eia.doe.gov Energy Information Administration

FERC Order 636: The Restructuring Rule (1992)

Description

FERC Order 636, known as the Restructuring Rule, was issued on April 8, 1992, and was designed to allow more efficient use of the interstate natural gas transmission system by fundamentally changing the way pipeline companies conduct business. Whereas previous orders had encouraged pipeline companies to provide transportation service on a nondiscriminatory basis, without favoring their own source of supply, Order 636 required interstate pipeline companies to unbundle, or separate, their sales and transportation services. The purpose of the unbundling provision was to ensure that the gas of other suppliers could receive the same quality of transportation services previously enjoyed by a pipeline company's own gas sales. Unbundling increased competition among gas sellers and diminished the market power of pipeline companies. The order includes the following major provisions:

- Required pipeline companies to provide open-access transportation services that are equal in quality whether the gas is purchased directly from the pipeline company or elsewhere, such as from a producer or a marketer.

- Encouraged the use and development of market centers where several pipeline systems interconnect and buyers and sellers can make or take gas deliveries. To facilitate the development of market centers, FERC encouraged pipeline companies to charge mileage-based rates rather than postage-stamp rates that have set charges for gas transported through a given area or zone regardless of distance.

- Required pipeline companies to provide customers with unbundled services and expanded access to interstate storage capacity. Storage is integral to the efficient and reliable distribution of natural gas, and provides the means to supply consumers' needs at times when their requirements exceed total gas production and mainline transmission capability.

- Established a capacity release market in transportation and storage capacity by allowing release of unwanted firm capacity and also allowing a replacement shipper to re-release capacity if permitted by the terms of the initial release. To help the capacity release market develop, FERC required pipeline companies to establish electronic bulletin boards to provide shippers with equal and timely access to information about the availability of service on their systems.

- Required pipeline companies to redesign their transportation tariff rates so that the majority of fixed costs would be recovered through the capacity reservation fee charged to firm customers. This reservation fee is charged on a monthly basis to reserve daily capacity, based on their peak period requirements. Interruptible customers do not reserve daily capacity and are not charged a reservation fee. Variable costs are recovered through a usage fee applied on a volumetric basis to the gas actually transported. The new rate design (straight fixed-variable) was intended to help promote competition among gas suppliers by eliminating any price distortions inherent in the previously used rate design (modified fixed-variable), which allocated certain fixed costs such as return on equity and related taxes to a commodity (usage) charge. This charge was levied on a per unit basis and applied to the volume of gas actually used, thus affecting costs for firm and interruptible customers alike.

- Required pipeline companies to offer a new "no notice" firm transportation service if they provided bundled citygate firm sales service on May 18, 1992. No-notice service allows customers to receive gas on demand up to their maximum contract level without making prior nominations to meet peak service needs.

Impact

FERC recognized that pipeline companies would incur costs as a result of complying with Order 636. These costs fall into four categories:

- Gas supply realignment costs resulting from pipeline companies reforming or buying out existing gas supply contracts or continuing to perform under certain contracts.
- Unrecovered gas costs remaining when a pipeline company closes out unpaid balances on gas supplies that it previously sold to its customers.
- Stranded costs representing assets previously used to provide bundled sales service (such as the pipeline company's own facilities, gas in storage, and capacity on upstream pipeline companies) that cannot be directly assigned to customers of the pipeline company's unbundled services.
- Costs incurred to purchase new equipment, such as gas metering and electronic bulletin boards.

Initially, Order 636 specified that the pipeline companies would be permitted recovery of 100 percent of their "prudently incurred" transition costs in the form of reservation surcharges to customers, or from an exit fee charged to firm-service customers. However, many LDCs, state commissions, and consumer advocates contended that the 100-percent pass-through of realignment costs would place undue burdens on captive customers of the LDCs, whereas pipeline companies, producers, marketers, and industrial consumers would not pay their share. Partly in response to such objections, FERC issued Order 636-A on August 3, 1992, which required pipeline companies to recover 10 percent of the cost of changing supply contracts through their rates for interruptible transportation.

The restructuring of the natural gas industry that began with Order 436 and was substantially completed with Order 636 has changed gas transportation patterns and rates. Increased competition among gas suppliers fostered by the new market flexibility has contributed to changes in regional production, transportation, and consumption patterns, and to greater efficiency in the use of the gas industry infrastructure.

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URL: http://www.eia.doe.gov/oil_gas/natural_gas/analysis_publications/ngmajorleg/ferc636.html