



April 7, 2005

Illinois Commerce Commission
Ms. Elizabeth A. Rolando, Chief Clerk
State Office Building
527 East Capitol Avenue
P.O. Box 19280
Springfield, IL 62794-9280

Dear Ms. Rolando,

Pursuant to the Commission's Citation Order in Docket No. 04-0672, Atmos Energy Corporation herewith submits for filing the computation of the 2004 Annual Reconciliation, along with the certification by the Company's independent public accountants. The filing includes prepared direct testimony, schedules and exhibits. The company has filed by e-docket on this date, the above information.

Please stamp and return a copy at your earliest convenience.

Sincerely,

A handwritten signature in black ink that reads "Victor W. Edwards".

Victor W. Edwards
Manager, Rate Administration

Enclosures

STATE OF TENNESSEE

WILLIAMSON COUNTY

AFFIDAVIT

Patricia J. Childers, being first duly sworn, deposes and says that she is Vice President of Rates and Regulatory Affairs – Mid States Division, a Division of Atmos Energy Corporation, and further, that she is an Officer of the Mid States Division; that she is authorized to execute this affidavit on behalf of the Mid States Division; that she has read the enclosed 2004 Annual Reconciliation and knows the contents thereof to be true of her own knowledge and belief.

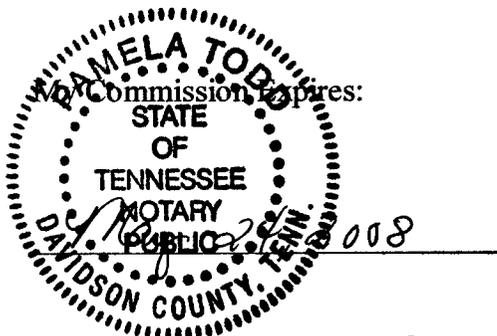
Patricia J Childers

Patricia J. Childers

Subscribed and sworn to before me,
A Notary Public, this the 6th day of April, 2005.

Janet Todd

Notary Public



My Commission Expires 05-24-08

Report of Independent Auditors

The Board of Directors
Atmos Energy Corporation

We have audited in accordance with auditing standards generally accepted in the United States the accompanying 2004 Annual Reconciliation – Illinois Division of Atmos Energy Corporation for the twelve months ended December 31, 2004. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of 2004 Annual Reconciliation – Illinois Division of Atmos Energy Corporation is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of 2004 Annual Reconciliation – Illinois Division of Atmos Energy Corporation. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents fairly, in all material respects, the 2004 Annual Reconciliation – Illinois Division of Atmos Energy Corporation for the twelve months ended December 31, 2004, in conformity with accounting principles generally accepted in the United States.

This report is intended solely for the information and use of Atmos Energy Corporation and the Illinois Commerce Commission and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

March 29, 2005
Dallas, Texas

UNITED CITIES GAS COMPANY
ANNUAL RECONCILIATION
ILLINOIS
December 2004

	<u>AMOUNT</u>
1. Unamortized Balance as of December 31, 2003 Reconciliation	(\$536,205.39)
2. Factor A Adjustments Amortized to Schedule I at 12/31/03 per 2003 Reconciliation	(\$209,362.88)
3. Factor O Collected/(Refunded) During 2004	(\$48,568.57)
4. Balance to be Collected/(Refunded) During 2004 from prior periods	(\$794,136.84)
5. 2004 Recoverable Costs	\$15,763,924.42
6. 2004 PGA Revenues	(\$14,803,326.36)
7. 2004 (Refunds) or Surcharges	(\$1,295.05)
8. Other Adjustments - Unbilled	(\$307,755.53)
9. Interest	(\$3,628.61)
10. 2004 Under/(Over)-Recovery	\$647,918.87
11. Under/(Over)-Recovery Balance at December 31, 2004	(\$146,217.97)
12. Factor A Adjustments Amortized to Schedule I at December 31, 2004	(\$23,403.95)
13. Unamortized Balance at December 31, 2004	(\$230,326.53)
14. Requested Factor O	\$60,704.61

UNITED CITIES GAS COMPANY
2004 ANNUAL RECONCILIATION
STATE-WIDE ILLINOIS

<u>Line</u>	<u>Description</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Subtotal</u>	<u>Line</u>
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
1	<u>Gas Cost Recoverable through Gas Charge</u>								1
2	Total Invoice Cost	\$2,351,328.47	\$1,869,071.41	\$1,096,007.91	\$1,414,122.84	\$1,121,936.03	\$1,420,306.04	\$9,272,772.70	2
3	Add: Storage Withdrawals	\$848,618.81	\$706,969.66	\$378,041.35	\$94,434.31	\$4,151.21	\$5,520.47	\$2,037,735.81	3
4	Interest	(\$591.61)	(\$867.43)	(\$746.94)	(\$526.45)	(\$384.87)	(\$140.26)	(\$3,257.56)	4
5	LP Gas	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	5
6	Less: Storage Injections	(\$33,608.67)	(\$45,576.16)	(\$18,218.10)	(\$564,883.41)	(\$509,138.38)	(\$958,694.10)	(\$2,130,118.82)	6
7	Company Use	(\$19,211.18)	(\$13,630.22)	(\$12,958.55)	(\$5,947.71)	(\$1,480.69)	(\$887.72)	(\$54,116.07)	7
8	Total Recoverable Gas Cost	<u>\$3,146,535.82</u>	<u>\$2,515,967.26</u>	<u>\$1,442,125.67</u>	<u>\$937,199.58</u>	<u>\$615,083.30</u>	<u>\$466,104.43</u>	<u>\$9,123,016.06</u>	8
9	<u>Gas Cost Recovered</u>								9
10	Purchased Gas Adjustment	<u>\$2,862,040.44</u>	<u>\$3,429,415.90</u>	<u>\$1,907,363.20</u>	<u>\$1,162,348.71</u>	<u>\$543,124.70</u>	<u>\$357,566.76</u>	<u>\$10,261,859.71</u>	10
11	Unbilled Gas Cost Prior Month	(\$1,789,318.47)	(\$1,952,381.57)	(\$1,190,374.66)	(\$657,631.00)	(\$251,134.00)	(\$176,715.00)	(\$1,789,318.47)	11
12	Unbilled Gas Cost Current Month 2004	<u>\$1,952,381.57</u>	<u>\$1,190,374.66</u>	<u>\$657,631.00</u>	<u>\$251,134.00</u>	<u>\$176,715.00</u>	<u>\$147,202.00</u>	<u>\$147,202.00</u>	12
13	Under/(Over) Recovery	\$121,432.28	(\$151,441.73)	\$67,506.13	\$181,347.87	\$146,377.60	\$138,050.67	\$503,272.82	13

UNITED CITIES GAS COMPANY

2004 ANNUAL RECONCILIATION

STATE-WIDE ILLINOIS

Line	Description	Subtotal	July	August	September	October	November	December	Total	Line
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	
1	<u>Gas Cost Recoverable through Gas Charge</u>									1
2	Total Invoice Cost	\$9,272,772.70	\$1,391,497.23	\$1,239,544.86	\$816,139.16	\$985,462.37	\$1,221,938.78	\$2,217,458.93	\$17,144,814.03	2
3	Add: Storage Withdrawals	\$2,037,735.81	\$7,648.13	\$11,605.51	\$12,607.47	\$9,442.98	\$383,841.86	\$846,910.91	\$3,309,792.67	3
4	Interest	(\$3,257.56)	\$0.00	\$55.83	\$51.97	\$0.00	\$0.00	(\$478.85)	(\$3,628.61)	4
5	LP Gas	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	5
6	Less: Storage Injections	(\$2,130,118.82)	(\$934,237.73)	(\$803,578.99)	(\$364,466.26)	(\$334,503.90)	(\$36,986.81)	(\$15,726.87)	(\$4,619,619.38)	6
7	Company Use	(\$54,116.07)	(\$1,794.18)	(\$378.03)	(\$604.64)	(\$1,799.50)	(\$6,075.46)	(\$6,295.02)	(\$71,062.90)	7
8	Total Recoverable Gas Cost	<u>\$9,123,016.06</u>	<u>\$463,113.45</u>	<u>\$447,249.18</u>	<u>\$463,727.70</u>	<u>\$658,601.95</u>	<u>\$1,562,718.37</u>	<u>\$3,041,869.10</u>	<u>\$15,760,295.81</u>	8
9	<u>Gas Cost Recovered</u>									9
10	Purchased Gas Adjustment	<u>\$10,261,859.71</u>	<u>\$359,589.07</u>	<u>\$300,150.33</u>	<u>\$348,739.43</u>	<u>\$504,367.34</u>	<u>\$813,702.09</u>	<u>\$2,214,918.39</u>	<u>\$14,803,326.36</u>	10
11	Unbilled Gas Cost Prior Month	(\$1,789,318.47)	(\$147,202.00)	(\$132,704.00)	(\$142,301.00)	(\$144,392.00)	(\$340,362.00)	(\$1,015,122.00)	(\$1,789,318.47)	11
12	Unbilled Gas Cost Current Month 2004	<u>\$147,202.00</u>	<u>\$132,704.00</u>	<u>\$142,301.00</u>	<u>\$144,392.00</u>	<u>\$340,362.00</u>	<u>\$1,015,122.00</u>	<u>\$2,097,074.00</u>	<u>\$2,097,074.00</u>	12
13	Under/(Over) Recovery	\$503,272.82	\$118,022.38	\$137,501.85	\$112,897.27	(\$41,735.39)	\$74,256.28	(\$255,001.29)	\$649,213.92	13

I.C.C. DOCKET NO. 04-0672

TESTIMONY OF VICTOR W. EDWARDS

ATMOS ENERGY CORPORATION

1 **Q. Would you please state your name, responsibility, and business address?**

2 A. Victor W. Edwards, Manager, Rate Administration, Atmos Energy Corporation
3 (Atmos, the Company), 5430 LBJ Freeway, Dallas, Texas 75240.

4 **Q. Please briefly summarize your educational background and experience**
5 **within the natural gas industry.**

6 A. In March 1992, I received a Bachelor of Science degree in Business
7 Administration, with a major in accounting from Auburn University at
8 Montgomery in the state of Alabama. I have also completed additional studies in
9 rate processing and fundamentals of regulated utilities sponsored by the Southern
10 Gas Association and the Gas Rate Fundamentals Course at the University of
11 Wisconsin at Madison.

12 My employment within the gas industry began with Atmos Energy Corporation in
13 March 1993 in the area of General Accounting and in November 1994, I joined
14 the Rates and Regulatory Affairs group as a Rate Analyst. I was responsible for
15 filing Gas Cost Adjustments (“GCA”) in the states of Texas, Louisiana, and
16 Colorado. In November of 1995, I was promoted to Senior Rate Analyst and my
17 responsibilities increased to filing Purchased Gas Adjustments (“PGA”) for the
18 state of Kentucky. In September of 1997, I was promoted to Price Coordinator,
19 responsible for areas of rate design and pricing mechanisms. In December of
20 1997, I transitioned to regulatory work in the telecommunications industry,
21 working as a Staff Administrator for GTE, and then Verizon Communications.

1 In March 2003, I returned to Atmos working as a Senior Financial Analyst until
2 July 2004 when I was promoted to Manager, Rate Administration. My current
3 responsibilities include the computation and filing of PGA's and Gas Cost
4 Adjustments ("GCA"), along with the recovery/refunding of under/over-recovery
5 balances for six Atmos business divisions in twelve states, which are Illinois,
6 Colorado, Kansas, Missouri, Iowa, Tennessee, Virginia, Georgia, Kentucky,
7 Mississippi, Louisiana, and Texas. In addition to the PGA and GCA filings, I am
8 also responsible for the maintenance of the Company's rate tariffs.0

9 **Q. Have you testified before this Commission?**

10 A. No, I have not testified before this Commission.

11 **Q. Please state the purpose of your testimony in the proceeding.**

12 A. The purpose of my testimony is to present the evidence required by the
13 Commission's Citation Order dated November 10, 2004. The evidence required
14 consists of: 1) the reconciliation of revenues billed under the PGA clause with the
15 actual cost of gas obtained during the 2004 reconciliation year; 2) the prudence of
16 the gas supply purchases during the reconciliation year; and 3) a description of the
17 measures taken to insulate the PGA from price volatility in the wholesale natural
18 gas market.

19 **Q. Please provide a general background of Atmos' Illinois operations before**
20 **presenting the required evidence.**

21 A. Atmos provides natural gas service to six operating areas in Illinois: Virden,
22 Vandalia, Harrisburg, Metropolis, Salem, and St. Elmo. The gas supply for these

1 service areas is received through separate interstate pipelines: Panhandle Eastern
2 Pipe Line Company, Natural Gas Pipeline Company of America, Texas Eastern
3 Transmission Corporation, Trunkline Gas Company, and Mississippi River
4 Transmission Corporation. In accordance with the Company's tariff, only one
5 state-wide reconciliation is submitted for the 2004 reconciliation year.

6 **Q. What evidence are you presenting to show the reconciliation of revenues**
7 **under the PGA clause with the actual cost of gas supplies obtained during the**
8 **2004 reconciliation year?**

9 A. Page 1 the Exhibit reflects the minimum filing requirements set forth in the
10 Citation Order. Pages 2 and 3 the Exhibit consists of three sections: Gas costs
11 recoverable through the PGA clause, titled "Gas Cost Recoverable through Gas
12 Charge"; revenues billed under the PGA clause, titled "Gas Cost Recovered", and
13 the net reconciliation balance. The "Gas Cost Recoverable through Gas Charge"
14 consists of all invoiced gas cost (commodity cost and, where applicable, contract
15 demand cost, storage demand cost, and transportation charges on spot market
16 gas), plus the commodity cost of gas withdrawn from storage at the applicable,
17 First-in, First-out (FIFO) inventory rate, plus the interest of any unamortized
18 balance of Factor A on Schedule II in the Company's monthly PGA filings, less
19 the commodity cost of gas injected into storage at the applicable (FIFO) inventory
20 rate, less the cost of gas used by the Company at the system average cost of gas
21 during the month of usage.

1 Exhibit I reflects the totals of all the Illinois service areas, with total
2 recoverable gas costs of \$14,657,108.39 and total gas cost recoveries of
3 (\$14,803,326.36), leaving a net amount due Customers of (\$146,217.97).

4 **Q. Is Atmos requesting any Factor O adjustments?**

5 A. Yes. The Company is requesting a Factor O adjustment of \$60,704.61. Company
6 inadvertently reflected an incorrect Purchased Gas Adjustment Recoveries in the
7 November filing. Schedule II line 2 should have been \$300,150.33 instead of
8 \$359,589.07. Additionally, the Refunds/Pipeline Surcharge/Other Adjustments
9 from the October filing in the amount of (\$1,295.05) were carried forward onto
10 the November filing.

11 **Q. Please explain the method utilized to purchase gas for Atmos' Illinois service**
12 **areas.**

13 A. The Company has contracts with four interstate pipelines. Those interstate
14 pipelines and the Atmos' operating areas served are: Panhandle Eastern Pipeline
15 Company (Panhandle) serving Virden; Natural Gas Pipeline Company of America
16 (Natural) serving Vandalia, Salem and St. Elmo; Trunkline Gas Company
17 (Trunkline) serving Metropolis, Salem and Virden; and Mississippi River
18 Transmission Corporation (MRT) serving Salem. Harrisburg is served through
19 Texas Eastern Transmission via a firm city gate delivery service by Atmos Energy
20 Marketing. All of the contracts are transportation and/or storage contracts, and
21 Atmos is responsible for the acquisition of the gas supply from whatever source it
22 chooses. The Company moves gas through Natural and MRT under a

1 demand/commodity transportation rate schedule, with a one-part transportation
2 rate for “swing” volumes. The gas moved through Trunkline and Panhandle is
3 under a one-part transportation rate schedule. All of the service areas have
4 purchased storage services. The acquisition of the actual gas varies by service
5 area. All of the contracts are based on market sensitive industry indices for the
6 reconciliation period. In addition, for the months of January 2004 through March
7 2005, the Company entered into financial swap and “costless collar” contracts on
8 approximately 50% of the net expected purchases for that period in order to
9 reduce fluctuation in the PGA rates to customers. For the months of November
10 2004 through January 2005, the Company entered into only financial swap
11 contracts on approximately 50% of the net expected purchases for that period.
12 These contracts to purchase gas, including spot market purchases, are determined
13 by using a competitive bidding process. The Company also has agency
14 agreements with BP Energy Company to manage our capacity on NGPL, which
15 was replaced by Tenaska Marketing Ventures effective November 1, 2004, and
16 CenterPoint Energy Gas Marketing on the MRT system.

17 **Q. How does the bidding process work?**

18 A. The Company solicits bids from producers and brokers. The request for bids
19 contains information such as quantity of gas, the serving pipeline, and length of
20 contract. If an RFP is solicited to our affiliate AEM, a set of Affiliate Rules
21 established in June 2003 outlines the elements for compliance. After bids are
22 received, the Company evaluates those bids by taking into consideration the

1 producer/broker's reputation, reliability of supply, and price. The Company must
2 have assurance of the bidder's reputation and reliability of supply before
3 awarding a contract. If several bidders meet these criteria, the bidder with the
4 lowest price is chosen.

5 **Q. Please describe the measures taken by the Company to insulate the PGA**
6 **from price volatility.**

7 A. As mentioned, the Company hedged approximately 50% of the expected net
8 purchases for the period January 2004 through March 2004 and for the November
9 2004 and December 2004 periods, by purchasing financial futures and collars
10 contracts. The net purchases are the total system requirements less storage.
11 Storage supplies approximately 39% of the system requirements. The Company
12 hedged 50% of the net purchases to provide rate stability and to avoid severe price
13 spikes, while leaving the remaining 50% of net purchases at the traditional
14 purchasing patterns to take advantage of any downward turn in market prices.
15 The hedging activity for January through March 2004 resulted in an increase in
16 gas costs of approximately \$69,345 (loss) above the prevailing market prices in
17 effect during those months. Of this, a gain of \$36,850 did not get rolled into the
18 deferred gas cost account, but will be booked in the calendar 2005 period. The
19 hedging activity for November and December 2004 resulted in a decrease of gas
20 costs of approximately \$262,030 (gain) below the prevailing market prices in
21 effect during those months.

1 **Q. Is it your opinion that the Company is engaging in prudent gas purchasing**
2 **decisions?**

3 A. Yes.

4 **Q. Does this conclude your testimony at this time?**

5 A. Yes.

STATE OF TEXAS

DALLAS COUNTY

AFFIDAVIT

Victor W. Edwards, being first duly sworn, deposes and says that he is Victor W. Edwards referred to in the document entitled "Testimony of Victor W. Edwards" in Docket No. 04-0672 before the Illinois Commerce Commission, and that the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.

Victor W. Edwards

Victor W. Edwards

Subscribed and sworn to before me,
A Notary Public, this the 4th day of April, 2005.

Sharon Quinn
Notary Public

My Commission Expires:

3-06-2007

