

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 14L-0254G

IN THE MATTER OF THE APPLICATION OF ATMOS ENERGY CORPORATION FOR APPROVAL TO REVISE ITS GAS COST ADJUSTMENT MECHANISM TO ALLOW FOR THE RECOVERY OF COSTS ASSOCIATED WITH FINANCIAL INSTRUMENTS USED TO HEDGE AGAINST GAS PRICE VOLATILITY.

**COMMISSION DECISION AUTHORIZING
REVISIONS TO GCA TARIFF**

Mailed Date: April 2, 2014
Adopted Date: April 2, 2014

I. BY THE COMMISSION

A. Statement

1. On March 24, 2014, Atmos Energy Corporation (Atmos) filed a verified application requesting a Commission decision authorizing it, without a formal hearing and on less-than-statutory notice, to place into effect by April 7, 2014, a tariff revising Atmos' Gas Cost Adjustment (GCA) mechanism, thereby authorizing Atmos to enter into, and to recover the costs associated with, financial instruments used to hedge against volatility in gas prices for the July 1, 2014 through June 30, 2015 Gas Purchase Year.

2. The proposed tariff page is attached to the application as Attachment No. 2, and affects Atmos' customers in all of its Colorado certificated areas on file with the Commission.

3. In addition, Atmos seeks approval extending its financial instrument hedging program for the Gas Purchase Years July 1, 2015 through June 30, 2018.

4. On March 31, 2014, Atmos filed the required proof of publication. Notice of this Application was published in *The Denver Post*, a newspaper of general circulation within Atmos' service territory on March 26, 2014.

5. The application contains all materials required by the Commission's rules, and is therefore deemed complete.

6. This application for authority to change tariffs is made pursuant to § 40-3-104, C.R.S., and Rules 4002, 4109, and 4601 through 4609 of the Commission's Rules Regulating Gas Utilities and Pipeline Operators, 4 *Code of Colorado Regulations* (CCR) 723-4.

B. Discussion

7. Atmos purchases natural gas supplies and sells those supplies to more than 110,000 customers within the State of Colorado, as well as providing transportation services. The financial instrument hedging program at issue in this proceeding addresses the costs of acquisition of natural gas used for this purpose.

8. In accordance with Rules 4002(b)(VII) and 4002(B)(XI)(D), 4 CCR 723-4, Atmos acknowledges that it has read and agrees to abide by the provisions of Rules 4002(b)(IV) through (VI) and Rules 4002(b)(XI)(A) through (C).

9. Atmos incorporates by reference information on file with the Commission in Proceeding No. 06M-525EG as required pursuant to Rules 1310(a) and 4002(c).

10. Atmos states that since 2011 they have employed a Commission approved fixed financial hedging approach, among other initiatives, in furtherance of Atmos' gas procurement strategy. Atmos is seeking to continue to use financial derivatives and instruments as a means to further mitigate the volatility of gas prices by affording ratepayers certain safeguards against the risk of market-driven fluctuations in gas prices.

11. Atmos claims that for each of the winter periods that it has been authorized to use financial instruments to mitigate a portion of gas price volatility for its customers since 2011, it has hedged using less than the Commission approved maximum budget dollars.

12. Atmos requested continued authorization with respect to the use of financial hedging instruments for the July 2014 through June 2015 Gas Purchase Year, but Atmos requested approval to extend its hedging program to the individual July 2015 through June 2018 Gas Purchase Years as well.

13. Although the Commission authorized Atmos' use of hedging through the July 1, 2014 through June 30, 2015 Gas Purchase Year in Decision No. C12-0338 in Proceeding No. 12L-213G issued March 29, 2012, additional authorization is required in order for Atmos to continue to hedge for a maximum of two winter periods in the future, as has been the practice historically.

14. Specifically Atmos seeks the following:

- (a) Authority to hedge within a range of 25 percent up to 50 percent of its normalized expected winter volume requirements net of storage through the use of financial instruments;
- (b) Authority to hedge this volume through the use of swap agreements, basis swaps, and/or call options using one and possibly two-year positions;
- (c) Authority to establish a budget for the cost of these instruments of no more than \$1.6 million per each winter period;
- (d) Authority to recover the hedging costs through its Gas Cost Adjustment; and
- (e) Authority to file a compliance Advice Letter on not less than two days' notice by which Atmos will tender Seventh Revised Tariff Sheet No. 5. The proposed tariff is attached to this Decision as Appendix A.

15. We find that the financial instrument hedging program and proposed revised tariff represent a reasonable strategy to mitigate gas price volatility. Therefore, we will grant the application and allow the proposed tariff changes on less-than-statutory notice.

II. ORDER

A. The Commission Orders That:

1. The application, as amended, filed by Atmos Energy Corporation (Atmos) is deemed complete.

2. The application filed by Atmos on March 24, 2014, for approval of its financial instrument hedging program for the Gas Purchase Year July 1, 2014 through June 30, 2015 and for authority to change its Gas Cost Adjustment Mechanism tariff on less-than-statutory notice is granted consistent with the above discussion.

3. Atmos is authorized to file, on less than two days' notice, the tariff page attached as Attachment 1 and made apart of this Decision, to be effective on or after April 7, 2014.

4. The 20-day time period provided by § 40-6-114, C.R.S., to file an application for rehearing, reargument, or reconsideration shall begin on the first day after the effective date of this Decision.

5. This Decision is effective on its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
April 2, 2014.**

(S E A L)



ATTEST: A TRUE COPY

A handwritten signature in cursive script that reads "Doug Dean".

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

JOSHUA B. EPEL

PAMELA J. PATTON

GLENN A. VAAD

Commissioners