

Exhibit No.:

Witness: Thomas R. Blose, Jr.

Type of Exhibit: Direct Testimony

Sponsoring Parties:

Atmos Energy Corporation and

Associated Natural Gas Company

Case No.: GM-2000-312

FILED

JAN 14 2000

DIRECT TESTIMONY

OF

**Missouri Public
Service Commission**

THOMAS R. BLOSE, JR.

On behalf of

ATMOS ENERGY CORPORATION

and

**ARKANSAS WESTERN GAS COMPANY
d/b/a ASSOCIATED NATURAL GAS COMPANY**

1 **BEFORE THE PUBLIC SERVICE COMMISSION**
2 **STATE OF MISSOURI**
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6 In the matter of the Joint Application of Atmos)
7 Energy Corporation and Arkansas Western Gas)
8 Company, d/b/a Associated Natural Gas)
9 Company, for an order authorizing the sale and)
10 transfer of certain assets of Associated)
11 Natural Gas Company located in Missouri to)
12 Atmos Energy Corporation and either)
13 authorizing the transfer of existing)
14 Certificates of Public Convenience and)
15 Necessity or granting a New Certificate of Public)
16 Convenience and Necessity to Atmos Energy)
17 Corporation in conjunction with same.)

Case No. GM-2000-312

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20 **DIRECT TESTIMONY OF THOMAS R. BLOSE, JR.**
21

22 **Q. Please state your name, position, and business address.**

23 A. My name is Thomas R. Blose, Jr. I am President of the United Cities Gas Company division
24 of Atmos Energy Corporation. My business address is 810 Crescent Centre Drive, Suite 600,
25 Franklin, Tennessee 37067.

26 **Q. On whose behalf are you testifying?**

27 A. I am testifying on behalf of the Joint Applicants in this proceeding: Atmos Energy
28 Corporation ("Atmos") and Arkansas Western Gas Company, d/b/a Associated Natural Gas
29 Company ("ANG").

30 **Q. Please describe your educational background and experience.**

31 A. I earned a Bachelor of Science Degree in Civil Engineering from the University of Tennessee
32 in 1970. Following graduation I was employed as a Plant Design Engineer at Newport News
33 Shipbuilding and Dry Dock Company, a Tenneco Company. In 1971, I became a Gas

1 Engineer with the Knoxville Utilities Board, Bureau of Gas. During my Junior and Senior
2 years at the University of Tennessee I worked in this same department as an engineering
3 intern. In 1976, I became Chief Engineer for the Bureau of Gas. In 1979, I accepted a
4 position at United Cities Gas Company as Chief Engineer, and became Vice President and
5 Chief Engineer in 1980. In 1986, I became Senior Vice President and Chief Engineer, and
6 in 1990 was made Senior Vice President-Operations and Engineering. I am an active
7 Registered Professional Engineer in Tennessee, Georgia, Illinois, Missouri, and South
8 Carolina. After the merger of Atmos and United Cities Gas Company in 1997, I became
9 President of the United Cities Gas Company division of Atmos Energy Corporation ("United
10 Cities").

11 **Q. What are your duties as President of the United Cities Gas Company division of**
12 **Atmos?**

13 A. I have overall responsibility for the management of all the operations of United Cities in its
14 seven-state service area.

15 **Q. What is the purpose of your direct testimony in this proceeding?**

16 A. The purpose of my testimony is to describe the basic rationale for the proposed purchase of
17 the Missouri assets of ANG by Atmos. I will explain why this transaction makes sense and
18 why it will result in a more efficient, competitive and strategically positioned natural gas
19 utility company.

20 **Q. Please provide a brief overview of Atmos' operations.**

21 A. Atmos is among a handful of corporations in America whose business activities and
22 expertise is heavily concentrated in the local distribution and transportation of natural gas.
23 Although incorporated only about 17 years ago, Atmos is comprised of gas utility operations

1 which began over 85 years ago. We continually strive to enhance the efficiency of our
2 operations while preserving traditional high standards of quality service to our customers and
3 our communities.

4 Atmos was incorporated as Energas Company in 1983. It was formed to own and
5 operate the gas distribution facilities of Pioneer Corporation, a diversified energy company
6 based in West Texas. Initially, the operations served approximately 312,000 customers in
7 the western part of Texas, from Dalhart southward to Midland. Other principal cities were
8 Lubbock, Odessa, and Amarillo. In 1986, Energas Company acquired and merged with a
9 similar distribution company in Louisiana which served about 65,000 customers in the South
10 and Central parts of the state. The merger with that company, Trans Louisiana Gas, Inc., was
11 a step toward diversification of Atmos' business in the areas of climate, regional economies,
12 and regulatory environments. In 1987, Atmos furthered its diversification goals by acquiring
13 and merging with Western Kentucky Gas Utility Corporation. Shortly thereafter, Energas
14 Company changed its name to Atmos (a Greek word for "gas" as in "atmosphere") to
15 recognize that it no longer was a regional company based in West Texas, but was an
16 aggregation of geographically distinct, yet similar, businesses, all of which were important
17 in their continuation to business goals and their need for corporate resources. In 1993,
18 Atmos acquired and merged with Greeley Gas Company. That acquisition and merger was
19 approved by this Commission and Atmos has been serving Greeley's customers, including
20 approximately 600 customers in Missouri, since 1993. In 1997, Atmos merged with United
21 Cities Gas Company, increasing its customer base by approximately 310,000 customers in
22 eight states. Today, Atmos serves approximately 16,000 of customers in Missouri through

1 the United Cities division. Atmos combined operations provide natural gas service to over
2 one million customers.

3 **Q. Please provide an overview of the business of ANG.**

4 **A.** As explained in the Joint Application:

5 ANG is a corporation duly organized and existing under the laws of
6 the State of Arkansas, having its principal office and place of
7 business at 1001 Sain Street, P.O. Box 1288, Fayetteville, Arkansas
8 72702-1288. ANG is engaged in the transmission and distribution of
9 natural gas at retail to approximately 48,000 customers in Dunklin,
10 Pemiscot, New Madrid, Wayne, Ripley, Scott, Mississippi, Cape
11 Girardeau, Schuyler, Adair, Cass and Bates counties in Missouri,
12 subject to the jurisdiction of the Missouri Public Service
13 Commission. ANG also provides service in parts of Arkansas
14 pursuant to the jurisdiction of the Arkansas Public Service
15 Commission. Applicant is a "gas corporation" and a "public utility"
16 as those terms are defined in Section 386.020(18) and (42), RSMo
17 (Supp. 1998), and has been granted Certificates of Convenience and
18 Necessity to provide natural gas service within the state of Missouri.
19 ANG conducts all of its utility activities in the state of Missouri under
20 the fictitious name of Associated Natural Gas Company.

21
22 Joint Application at p. 2-3, paragraph 3.

23
24 **Q. Please describe the rationale for the purchase of the Missouri assets of ANG by Atmos.**

25 **A.** In today's competitive climate, size and diversity are becoming increasingly important
26 factors in the continuing success of natural gas utilities. Experience and exposure in diverse
27 markets, gas supply purchasing power, the overall purchasing power of a larger company,
28 access to capital resources, and effective collaboration of management and employee
29 resources are all positive aspects of this acquisition. The Missouri service areas of Atmos
30 and ANG fit together very well. Atmos is experienced in multi-state operations, deals with
31 multiple pipeline suppliers and producers, and has a good track record of customer service.
32 The purchase of the ANG properties will allow Atmos to expand its Missouri operations and

1 achieve additional economies of scale and scope that will eventually benefit its Missouri
2 ratepayers and employees, as well as the shareholders of Atmos.

3 **Q. Following the acquisition of the ANG property, will Atmos be better able to take**
4 **advantage of opportunities in increasingly competitive energy markets?**

5 A. Yes. Acquisition of the ANG property will enable the larger company to provide quality
6 service to our customers at a competitive price through economies of scale, use of best
7 practices, efficiencies, and managerial expertise that will be enhanced through this strategic
8 acquisition.

9 **Q. Do you believe that the proposed transaction is detrimental to the public interest?**

10 A. No. As I discuss herein, I believe there will be benefits for our ratepayers, shareholders and
11 employees as a result of the proposed transaction.

12 **Q. Please describe how the proposed transaction will affect ratepayers in Missouri.**

13 A. Atmos will adopt and operate under the existing approved rates, rules and regulations of
14 ANG for the Missouri areas presently served by ANG. However, from an operational
15 standpoint, Atmos will include the service areas presently served by ANG as a part of its
16 United Cities Gas Company division following consummation of the sale. There will be no
17 interruption in service to any customers as a result of the sale. As a result, customers will
18 see few, if any, changes in their service, except the name change of their service provider.

19 **Q. Please describe how the proposed transaction will affect employees previously**
20 **employed by ANG in Missouri.**

21 A. Former ANG employees located in Missouri will be given the opportunity to continue their
22 employment with Atmos' United Cities Gas division. Employees will be employed at a
23 financially strong natural gas distribution company. As a result, they will have broader

1 career options as a result of the diverse multi-state scope of operations of Atmos. Atmos is
2 continuing to review the integration of ANG operations, and we are looking at all facets of
3 the operations while keeping in mind the need to provide safe and reliable service at a
4 reasonable price.

5 **Q. How will the proposed transaction effect the shareholders of the Joint Applicants?**

6 A. Atmos shareholders will benefit from the increases in efficiency of the combined service
7 areas and their strengthened competitive position in competitive markets. Atmos will be
8 financially stronger with greater revenues and investment appeal. ANG shareholders also
9 will benefit since Atmos is paying a premium above the book value of the properties.

10 **Q. Please discuss the accounting method required for the proposed transaction.**

11 A. Atmos will account for the purchase of the Missouri ANG assets using the purchase method
12 of accounting in accordance with the provisions of Accounting Principles Board Opinion
13 No. 16, "Business Combinations." Accordingly, Atmos will record at its cost the fair value
14 of the acquired assets less the fair value of the liabilities assumed, with the excess of such
15 cost over the estimated fair value reflected as goodwill (*i.e.*, acquisition premium). The
16 proposed transaction will be accounted for as a transfer of net assets between companies.
17 Assets and liabilities transferred will be accounted for at historical cost.

18 **Q. What effect will the proposed transaction have on the ability of Atmos to attract equity
19 capital at reasonable rates?**

20 A. The transaction should enhance the ability of Atmos to attract equity capital at a reasonable
21 costs. The cash flow of Atmos should be enhanced by the purchase of the ANG properties.
22 This means that Atmos will have a greater ability to add shareholder value through increases
23 in stock prices and/or payment of dividends in the future.

1 **Q. How does Atmos intend to finance the proposed transaction?**

2 A. Atmos intends to pay for the proposed transaction by issuing a \$32,000,000 note payable at
3 a period of not more than twelve months. It is my understanding that no Commission
4 approval is required for the issuance of this note since it is for a period of less than twelve
5 months.

6 **Q. Please describe the balance sheet, income statement and capital structure of Atmos**
7 **following consummation of the proposed transaction.**

8 A. Appendix 4 to the Joint Application shows the pro forma balance sheet, income statement,
9 and capital structure of Atmos following the sale. Although the debt to equity ratio increases
10 slightly due to the issuance of the short-term note, Atmos expects that in the near future its
11 debt to equity ratio will be similar to its pre-acquisition levels.

12 **Q. What regulatory agencies exercise jurisdiction over the proposed transaction between**
13 **Atmos and ANG?**

14 A. The proposed transaction is subject to the approval of the Missouri Public Service
15 Commission and the Federal Energy Regulatory Commission.

16 **Q. When do the parties expect to obtain the required approvals?**

17 A. We are hopeful that we will be able to obtain all regulatory approvals by the end of the first
18 quarter of 2000.

19 **Q. Are you sponsoring any of the exhibits attached to the Joint Application?**

20 A. Yes. I am sponsoring the Joint Application and its Appendices, with the exception of
21 Appendix 3, the Board of Directors Resolution of Arkansas Western Gas Company.

22 **Q. Does this conclude your testimony?**

23 A. Yes.

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VERIFICATION

STATE OF TENNESSEE)
) ss.
COUNTY OF WILLIAMSON)

Thomas R. Blose, Jr., being first duly sworn, deposes and says that he is the Thomas R. Blose, Jr. referred to in the foregoing document entitled "Direct Testimony of Thomas R. Blose, Jr." in Case No. GM-2000-312, before the Missouri Public Service 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.



Thomas R. Blose, Jr.

SUBSCRIBED AND SWORN to before me this 14th day of January, 2000.



Notary Public

My Commission Expires:

July 22, 2000

