

Exhibit No.:
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Sponsoring Party:
Case No.:

ANG Asset Purchase
Burdette/Rebuttal
Public Counsel
GM-2000-312

FILED³

MAR 01 2000

REBUTTAL TESTIMONY

Missouri Public
Service Commission

OF

MARK BURDETTE

Submitted on Behalf of
the Office of the Public Counsel

**ATMOS ENERGY CORPORATION
AND
ASSOCIATED NATURAL GAS COMPANY**

Case No. GM-2000-312

March 1, 2000

FILED³

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Missouri Public
Service Commission

In The Matter of The Joint Application of Atmos Energy)
Corporation and Arkansas Western Gas Company, d/b/a)
Associated Natural Gas Company, for an Order)
Authorizing the Sale and Transfer of Certain Assets of)
Associated Natural Gas Company Located in Missouri)
to Atmos Energy Corporation and Either Authorizing the)
Transfer of Existing Certificates of Public Convenience)
and Necessity or Granting a New Certificate of Public)
Convenience and Necessity to Atmos Energy Corporation)
in Conjunction with Same.)

Case No. GM-2000-312

AFFIDAVIT OF MARK BURDETTE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

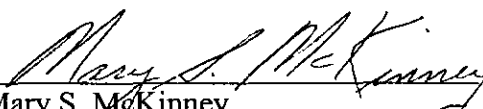
Mark Burdette, of lawful age and being first duly sworn, deposes and states:

1. My name is Mark Burdette. I am a Financial Analyst for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 7.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Mark Burdette

Subscribed and sworn to me this 1st day of March, 2000.



Mary S. McKinney
Notary Public

My commission expires August 20, 2001

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REBUTTAL TESTIMONY

OF

MARK BURDETTE

ATMOS ENERGY CORPORATION AND

ARKANSAS WESTERN GAS COMPANY

CASE NO. GM-2000-312

8

9

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Mark Burdette, P.O. Box 7800, Ste. 250, Jefferson City, Missouri 65102-7800.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Office of the Public Counsel of the State of Missouri (OPC or Public Counsel) as a Public Utility Financial Analyst.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.

A. I earned a Bachelor of Science in Electrical Engineering from the University of Iowa in Iowa City, Iowa in May, 1988. I earned a Master's in Business Administration with emphases in Finance and Investments from the University of Iowa Graduate School of Management in December 1994.

Q. PLEASE DESCRIBE YOUR CONTINUING EDUCATION.

A. I have attended various regulatory seminars presented by the Financial Research Institute, University of Missouri-Columbia and the National Association of State Utility Consumer

23

1 Advocates. Also, I attended The Basics of Regulation: Practical Skills for a Changing
2 Environment presented by the Center for Public Utilities, New Mexico State University.
3 Additionally, I have been awarded the professional designation Certified Rate of Return
4 Analyst (CRRA) by the Society of Utility and Regulatory Financial Analysts. This
5 designation is awarded based upon work experience and successful completion of a written
6 examination.

7 Q. DO YOU HAVE ANY PROFESSIONAL AFFILIATIONS?

8 A. Yes. I am a member of the Society of Utility and Regulatory Financial Analysts (SURFA).

9 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MISSOURI PUBLIC
10 SERVICE COMMISSION (MPSC OR THE COMMISSION)?

11 A. Yes.

12
13 **ANALYSIS OF TRANSACTION**

14 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

15 A. I will present testimony regarding the financial transaction in which Atmos Energy
16 Corporation (Atmos, the Company) proposes to purchase the Missouri-jurisdictional utility
17 assets owned by Arkansas Western Gas Company (ANG) for \$32 million and the
18 assumption of \$4.2 million of ANG's liabilities (in total, 'the transaction').

19 Q. DOES PUBLIC COUNSEL SUPPORT THIS TRANSACTION?

20 A. No. Public Counsel does not support this transaction as proposed because the transaction is
21 detrimental to the public interest.

1 Q. COULD YOU PLEASE ELABORATE?

2 A. Yes. Public Counsel is opposed to the transaction proposed in this case for several reasons.
3 Public Counsel opposes the recovery through rates of any acquisition premium and opposes
4 an increase in Atmos' cost of capital because of this transaction. I will address this topic as
5 well as other concerns including customer service issues. Additionally, OPC witness
6 Robertson will describe the transaction in detail and address accounting concerns.

7 Q. HOW DOES ATMOS PROPOSE TO FINANCE THIS TRANSACTION?

8 A. Atmos will issue a \$32 million short-term note payable, for a period of no more than
9 twelve months, and Atmos will assume approximately \$4.2 million of ANG's liabilities.

10 Q. DOES ATMOS SAY WHAT TYPE OF LONG TERM FINANCING WILL REPLACE THE
11 SHORT TERM NOTE?

12 A. Not specifically. The testimony of Thomas R. Blose, Jr., states:

13 Although the debt to equity ratio increases slightly due to the issuance of
14 the short-term note, Atmos expects that in the near future its debt to equity
15 ratio will be similar to its pre-acquisition levels. [Blose-direct, page 7, lines
16 9-11]

17
18 This sentence from Mr. Blose's testimony seems to indicate that Atmos will issue long
19 term debt and equity in proportions roughly equivalent to the Company's current capital
20 structure.

21 Public Counsel data request 2014 asks "What is Atmos' plans for permanent
22 financing of the proposed purchase after the \$32M one-year note payable comes due?"

23 The Company's response to this data request states:

24 Atmos plans to either (i) refinance the \$32 million note by issuing long-
25 term debt, common equity, or a combination of these or (ii) repay the note
26 using free cash flow.
27

1 Q. WHAT ARE THE POTENTIAL RISK AND COST OF CAPITAL ISSUES ASSOCIATED
2 WITH THE ACQUISITION BY ATMOS OF THE ANG PROPERTIES?

3 A. The issuance of \$32 million in short-term debt will directly effect the Company's balance
4 sheet. Similarly, the way Atmos ultimately finances this transaction (i.e. refinances the
5 short-term debt issuance) will directly effect the Company's balance sheet. A shift in the
6 balance sheet to a greater level of equity, which is more expensive than debt financing,
7 would lead directly to an increased overall rate of return. This increased cost is the
8 responsibility of the shareholders, not Missouri's ratepayers.

9 Also, if the market perceives the 'new' Company (Atmos including the new assets
10 and liabilities) as more risky, then the transaction could increase the interest rate Atmos
11 must pay for debt the Company issues in the future. Missouri's ratepayers should not carry
12 any such increase in the cost of debt.

13 Also, Public Counsel opposes any increase to Atmos' authorized return on equity
14 due to any factor relating to this acquisition. Any potential changes in risk profile due to
15 this transaction, such as a more leveraged capital structure or degradation in credit quality,
16 should not be reflected in the Company's authorized return on equity and should not be
17 paid for by Missouri's ratepayers.

18 Q. WHO IS RESPONSIBLE FOR ANY INCREASED COSTS THAT COULD RESULT
19 FROM RISK OR CAPITAL STRUCTURE CHANGES FOR ATMOS?

20 A. Public Counsel believes Atmos' shareholders bear the responsibility for any increase in
21 cost of capital for Atmos associated with this transaction. Missouri's ratepayers should not
22 pay higher rates due only to a change in ownership of utility assets.

1 Q. DOES THE PROPOSED TRANSACTION INCLUDE AN ACQUISITION PREMIUM?

2 A. Yes. The transaction creates an approximately \$3.6 million premium. Please see OPC
3 witness Robertson's rebuttal testimony for an accounting description of the creation of the
4 premium.

5 Q. DOES THE CLAIMED ACQUISITION PREMIUM REPRESENT AN INVESTMENT
6 WHICH INCREASES THE LEVEL OF ASSETS THAT ARE USED AND USEFUL IN
7 PROVIDING UTILITY SERVICE?

8 A. No. The assets acquired by Atmos will be the same assets previously held by ANG. There
9 is no new investment in new utility assets. The total book value of all Atmos utility assets
10 after the proposed sale equals the sum of the book values of the current Atmos utility assets
11 plus the portion being purchased from ANG. The ability to provide utility service and the
12 value of the assets employed to provide that service, as measured by original-cost rate base,
13 will not change after the transaction.

14 Q. WHY IS IT APPROPRIATE TO EXCLUDE AN ACQUISITION PREMIUM FROM RATE
15 BASE AND COST OF SERVICE?

16 A. Under cost-based regulation, a utility's rates are set to allow recovery of its operating
17 expenses, depreciation, and taxes on a dollar for dollar basis, and the opportunity but not
18 the guarantee to earn a fair rate of return on the depreciated or net book value of plant or
19 other assets utilized to provide service to its customers (the rate base).

20 *Simply transferring ownership of used and useful utility assets does not increase*
21 *the ability of those assets to provide public service. Because ratepayers are captives of the*
22 *monopoly utility providing service, the ratepayer has no viable alternative to obtain utility*
23 *service. The regulatory bargain between ratepayer and public utility would be violated if*
24 *the ratepayer was subject to increased cost of service simply because the new utility owner*
25 *chose to acquire the utility assets at a price greater than net original cost.*

1 Q. HOW WOULD THE INCLUSION OF AN ACQUISITION PREMIUM AFFECT
2 RATEPAYERS?

3 A. First, including an acquisition premium in rate base increases the overall level of
4 authorized earnings (authorized rate of return multiplied by rate base) for the public utility,
5 leading to increased rates -- this is a return ON the premium. Second, the amortization of
6 an acquisition premium would increase the utility's level of expenses and, therefore, cost of
7 service, also resulting in increased rates for ratepayers -- this is a return OF the premium.

8 The increased rate base (providing the return ON the premium) and the increased
9 cost of service (return OF the premium) each lead to increased rates for ratepayers.
10 However, these higher rates are not the result of an increase in the utility's ability to
11 provide service as measured by rate base assets.

12 Q. WOULD THESE RATE INCREASES RESULT DUE TO AN INCREASE IN THE
13 USEFULNESS OF THE ASSETS?

14 A. No. The assets are the same regardless of ownership. The ability of public utility assets to
15 be used and useful in providing utility service to ratepayers is not enhanced by paying more
16 than book value.

17 Q. DOES PUBLIC COUNSEL HAVE OTHER CONCERNS REGARDING A CHANGE OF
18 OWNERSHIP OF MISSOURI-JURISDICTIONAL UTILITY ASSETS?

19 A. Yes. One concern is the level of customer service being provided to the ratepayers. Public
20 Counsel would oppose any acquisition that would threaten the level of customer service
21 being provided. Specific customer service indicators such as Abandoned Call Rate should
22 not deteriorate after the acquisition. Any potential financial savings stemming from this
23 acquisition should not come at the expense of customer service. Obviously a degradation
24 in customer service would be detrimental to the public interest.

1 Q. DOES THE COMPANY ADDRESS CUSTOMER SERVICE ISSUES IN ITS
2 TESTIMONY?

3 A. Not specifically. Mr. Blose's direct testimony states:

4 There will be no interruption in service to any customers as a result of the
5 sale. As a result, customers will see few, if any, changes in their service,
6 except the name change of their service provider. [Blose-Direct, page 5,
7 lines 16-18]
8

9 Q. ARE THERE OTHER CONCERNS?

10 A. Yes. Another concern regarding this transaction is that Atmos continues to plan for, budget
11 for, finance and execute any capital investment and construction necessary for ANG's
12 Missouri-jurisdictional assets. Investments concerning safety issues and such items as
13 main replacement should be maintained at levels to ensure safe and reliable service.
14 Additionally, such investments by Atmos in Atmos' own assets should not be jeopardized
15 by this transaction.

16 Q. DOES THIS COMPLETE YOUR TESTIMONY?

17 A. Yes.