

Exhibit No.:
Issue: Financing
Witness: DAVID P. BROADWATER
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GM-2000-312

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

DAVID P. BROADWATER

ATMOS ENGERY COMPANY

and

ASSOCIATED NATURAL GAS COMPANY

CASE NO. GM-2000-312

Jefferson City, Missouri
February 2000

FILED²
MAR 01 2000
Missouri Public
Service Commission

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REBUTTAL TESTIMONY OF
DAVID P. BROADWATER
ATMOS ENERGY CORPORATION
AND
ASSOCIATED NATURAL GAS COMPANY
CASE NO. GM-2000-312

Q. Please state your name.

A. My name is David P. Broadwater.

Q. Please state your business address.

A. My business address is 3675 Noland Road, Independence, MO 64055.

Q. What is your present occupation?

A. I am employed as a Financial Analyst for the Missouri Public Service Commission (Commission). I accepted this position in March 1995. From December 1993, to February 1995, I was employed as a Management Services Specialist with the Commission. I would note that while a member of the Management Services Department, I assisted with cost of capital reviews for the Financial Analysis Department.

Q. What has been the nature of your duties while in the employ of this Commission?

A. Principally, I have analyzed the cost of capital of public utility companies operating within the state of Missouri. Please refer to Schedule 1 for a listing of the major cases in which I have previously filed testimony. In addition to the cases listed in Schedule 1, I have analyzed the cost of capital for numerous small water, sewer and telephone utilities.

1 Q. Were you previously employed before you joined the Commission's staff
2 (Staff)?

3 A. Yes, I was employed by Cullum & Brown Inc. from July 1991, through
4 November 1993, in a sales and sales support capacity.

5 Q. What is your educational background?

6 A. In 1991, I earned a Bachelor of Science degree in Business Finance from
7 Northwest Missouri State University. In 1995, I earned a Master of Business
8 Administration degree with an emphasis in Finance from the University of Missouri at
9 Kansas City.

10 Q. Are you a member of any professional associations?

11 A. Yes. I am a member of the Society of Utility and Regulatory Financial
12 Analysts (SURFA), formerly the National Society of Rate of Return Analysts.

13 Q. Do you hold any professional designations?

14 A. Yes. On May 13, 1997, I was awarded the professional designation of
15 "Certified Rate of Return Analyst" (CRRRA) by the Society of Utility and Regulatory
16 Financial Analysts. This designation is based upon education, experience and the
17 successful completion of a comprehensive examination.

18 Q. What is the purpose of this testimony?

19 A. The purpose of my testimony is to provide: (1) an explanation of how
20 Atmos Energy Corporation (Atmos) intends to finance the acquisition of the Missouri
21 properties of Arkansas Western Gas Co, d/b/a Associated Natural Gas Company (ANG);
22 and (2) a summary of the Staff's position in this case.

23

1 **FINANCING**

2 Q. How is Atmos planning on paying for the purchase of Associated Natural
3 Gas's (ANG's) Missouri operations?

4 A. The Joint Application states that Atmos plans on issuing a short-term note
5 payable in the amount of \$32 million, which will not require the Commission's approval.
6 However, Atmos has indicated in conversations with the Staff that they will roll the
7 short-term debt into some form of permanent financing (either long-term debt or common
8 equity) at a later date.

9 Q. Has Atmos made a filing with the Commission regarding the subsequent
10 issuance of long-term debt and/or common equity?

11 A. Yes. Subsequent to the filing of the Joint Application in this docket,
12 Atmos filed with the Commission, in Case No. GF-2000-393, an Application requesting
13 authority to issue and implement up to a \$500 million universal shelf registration for debt
14 and equity financing. In Atmos' Application in Case No. GF-2000-393, it states that the
15 proceeds of the shelf registration will be used, among other things, to: 1) pay off short-
16 term debt; 2) pay for the purchase, acquisition and construction of additional properties
17 and facilities; 3) pay for improvements to the Company's existing plant; and 4) refund
18 higher coupon long-term debt. The Staff has recommended that the Commission approve
19 Atmos' Application in Case No. GF-2000-393, but as of the writing of this rebuttal
20 testimony, the Commission has not yet ruled on the financing case.

21 Q. Are there any other issues that the Commission should consider?

22 A. Yes. ANG currently has a service line replacement program and a main
23 replacement program in effect. In discussions Atmos has agreed that the proposed

1 acquisition will have no effect on the budget to complete ANG's service line and main
2 replacement program and will continue to comply with any other waivers or agreements
3 concerning pipeline safety.

4
5 **SUMMARY OF STAFF'S POSITION**

6 Q. What standard did Staff utilize to develop its recommendation regarding
7 the proposed acquisition of ANG's Missouri properties by Atmos?

8 A. Staff utilized the "not detrimental to the public interest" standard as it has
9 in similar acquisition cases as well as merger cases. If the Joint Applicants fail to show
10 that the proposed sale of ANG's Missouri properties to Atmos is not detrimental to the
11 public interest in Missouri (i.e., if it is demonstrated that the Missouri public will be
12 harmed by the proposed sale), then the Commission should reject this Application and
13 not approve the proposed sale. Staff Counsel has advised that the "not detrimental to the
14 public interest" standard is based on case law generally cited in Commission Orders such
15 as State ex rel. City of St. Louis v. Public Serv. Comm'n, 73 S.W.2d 393 (Mo. banc
16 1934); State ex rel. Fee Fee Trunk Sewer Co., Inc. v. Litz, 596 S.W.2d 466 (Mo. App.
17 1980). Staff Counsel also advises that the Commission has incorporated the "not
18 detrimental to the public interest" standard in its rules. 4 CSR 240-2.060(5)(D).

19 Q. How is Staff defining the term "public?"

20 A. Consistent with Staff's position in other acquisition and merger cases,
21 Staff views the members of the "public" that are to be protected in the instant case as
22 those consumers taking and receiving utility service from ANG's properties in the State
23 of Missouri that are being sold to Atmos.

1 In this case, Staff would define "public interest" as referring to the nature and
2 level of the impact or effect that Atmos' acquisition will have on ANG's Missouri
3 customers. There is a fundamental concern in the regulation of public utilities that the
4 public being served will not be impacted adversely or harmed by those responsible for
5 providing monopoly services. Public utilities in Missouri are charged with providing safe
6 and adequate service at just and reasonable rates. If this merger results in adverse or
7 negative impacts to Atmos' Missouri customers, then the Commission should not
8 approve the Joint Applicants' Merger Application or, in the alternative, impose
9 conditions sufficient to overcome the detriments of the merger.

10 In the merger case involving Kansas Power & Light (KPL) and Kansas Gas &
11 Energy (KGE) which occurred in 1991, the Commission identified the "public" as
12 Missouri ratepayers. At pages 12 to 13 of its Report and Order (Case No. EM-91-213),
13 the Commission stated the following:

14 The Commission has found no evidence in this record that KPL would be
15 unable to render safe and adequate service to its Missouri ratepayers as a
16 consequence of the proposed merger. However, the Commission has
17 found that the savings sharing plan proposed by KPL as part of its merger
18 application has the potential of exposing Missouri ratepayers to higher
19 rates than would be the case without the merger which would be
20 detrimental to the public interest. . . . (emphasis added)

21
22 The Commission has also found that there is potential for a detrimental
23 effect on Missouri ratepayers from the merger through increased A & G
24 and capital costs. . . . (emphasis added)

25
26 Based upon these findings and determinations, the Commission concludes
27 that Missouri ratepayers will be shielded from any potential ill effects
28 from the proposed merger and will suffer no detriment as a result.
29 Therefore, the Commission concludes that, in the absence of a finding of
30 detriment to the public interest, it may not withhold its approval of the
31 proposed merger and will authorize KPL to acquire and merge with KGE.
32 (emphasis added)
33

1 Clearly, the Commission was identifying the Missouri ratepayers as the relevant "public"
2 in its Report and Order. This is the standard that is being applied by the Staff to the
3 proposed acquisition of ANG's Missouri properties by Atmos.

4 Q. What is the Staff's recommendation to the Commission in this
5 proceeding?

6 A. The Staff is recommending that the Commission approve the Joint
7 Application in this Case with the following conditions:

- 8 1) That Atmos will not seek rate recovery in a future rate proceeding of any
9 acquisition adjustment resulting from the transaction. [Hyneman Rebuttal, p. 4]
10
- 11 2) That Atmos will agree to hold ANG's Missouri ratepayers harmless from any
12 increase in rate base caused by the loss ANG's accumulated deferred income tax
13 reserve. [Hyneman Rebuttal, p. 14]
14
- 15 3) That SWEN be required to transfer the same percentage of pension assets and
16 pension liabilities to the Atmos pension plan. [Vesely Rebuttal, p. 7; Hyneman
17 Rebuttal, p. 19]
18
- 19 4) Atmos Energy Corporation agrees to conduct thorough, detailed, well
20 documented Request For Proposal bidding processes for all of its long-term gas
21 supply contracts including any gas supplies purchased from Associated Natural
22 Gas Company which were withdrawn from ANG's Liquefied Natural Gas plant.
23 [Wallis Rebuttal, p. 2]
24
- 25 5) Acknowledgment and agreement that neither Atmos Energy Corporation nor
26 Associated Natural Gas Company will challenge or impede the Commission
27 Staff's discovery rights or the litigation process with regard to any prudence or
28 compliance issues relating to (1) any open ACA cases involving Associated
29 Natural Gas Company at the time of the completion of the sale and (2) any joint
30 agreements and/or contracts between AEC and ANG (including any agreements
31 and/or contracts relating to the Liquefied Natural Gas facility being retained by
32 Associated Natural Gas Company) which remain in effect after the sale. [Wallis
33 Rebuttal, p. 2]
34
- 35 6) Acknowledgment and agreement that the Commission may access and require
36 without subpoena the production of all accounts, books, contracts, records,
37 documents, memoranda, and papers of Atmos Energy Corporation and/or
38 Associated Natural Gas Company with regard to (1) any open ACA cases
39 involving Associated Natural Gas Company at the time of the completion of the

1 sale and (2) any joint agreements and/or contracts between AEC and ANG
2 (including any agreements and/or contracts relating to the Liquefied Natural Gas
3 facility being retained by Associated Natural Gas Company and/or the assets of
4 ANG which are purchased by AEC) which remain in effect after the sale. [Wallis
5 Rebuttal, p. 3]
6

7 7) Acknowledgment and agreement that the Commission may require of Associated
8 Natural Gas Company and/or Atmos Energy Corporation answers, and/or the
9 appearance of officers or employees without subpoena to provide answers to
10 questions upon which the Commission may need information respecting (1) any
11 open ACA cases involving Associated Natural Gas Company at the time of the
12 completion of the sale and (2) any joint agreements and/or contracts between
13 AEC and ANG (including any agreements and/or contracts relating to the
14 Liquefied Natural Gas facility being retained by Associated Natural Gas
15 Company and/or the assets of ANG which are purchased by AEC) which remain
16 in effect after the sale. [Wallis Rebuttal, p. 4]
17

18 8) Acknowledgment and agreement that neither Atmos Energy Corporation nor
19 Associated Natural Gas Company will increase rates to Missouri customers
20 through the PGA/ACA process by charging any type of gas supply demand
21 charge, gas supply commodity premium, agency fee, transportation charges, or
22 any other cost or rate designed to recover the costs associated with the Liquefied
23 Natural Gas plant. [Wallis Rebuttal, p. 4]
24

25 9) Atmos Energy Corporation agrees to conduct a thorough, detailed, well-
26 documented peak day study, to be completed by August 30, 2000, with regard to
27 the new system and contracts which it purchased from ANG. [Wallis Rebuttal,
28 p. 5]
29

30 10) Atmos Energy Corporation agrees to ensure that (1) existing overall ANG
31 Missouri peak day firm gas supply sources, firm transportation capacity, and firm
32 storage capacity (including supplies withdrawn and/or capacity used from the
33 Liquefied Natural Gas plant) are maintained at current overall ANG Missouri
34 levels before and after the sale is completed and (2) any changes made by AEC,
35 before and after the sale is completed, with regard to ANG's current overall firm
36 peak day supply and/or transportation levels and firm peak day supply and/or
37 transportation mix do not increase costs to Missouri ratepayers.[Wallis Rebuttal,
38 p. 5]
39

40 11) Atmos Energy Corporation accepts that adjustments may be necessary in future
41 proceedings (1) to avoid possible detriment associated with the reallocation of gas
42 supply, transportation, and storage contracts and (2) to reflect any detriment
43 associated with reallocation of common transmission mains, use of AEC
44 transmission mains by ANG, or other common plant facilities. [Wallis Rebuttal,
45 p. 6]
46

Rebuttal Testimony of
David P. Broadwater

- 1 12) Atmos Energy Corporation adopts ANG's tariffs under a name other than United
2 Cities Gas Company or Greeley Gas Company. [Imhoff Rebuttal, p. 3]
3
- 4 13) That prior to any sale agreement approved by the Commission, the sale applicants
5 (Arkansas Western Gas Company d/b/a Associated Natural Gas Company [ANG]
6 and Atmos Energy Corporation [Atmos]), the Staff and the Office of the Public
7 Counsel, will jointly file an agreement for Commission approval which
8 establishes reasonable and appropriate customer service measurements for
9 Missouri ANG customers. [Kremer Rebuttal, p. 2]
10
- 11 14) Atmos agrees that the proposed acquisition will have no effect on the budget to
12 complete ANG's service line and main replacement program and will continue to
13 comply with any other waivers or agreements concerning pipeline safety.
14 [Broadwater Rebuttal p. 3]
15
- 16 Q. Does this conclude your rebuttal testimony?
- 17 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Atmos)
Energy Corporation and Arkansas Western Gas) CASE NO. GM-2000-312
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.)

AFFIDAVIT OF DAVID P. BROADWATER

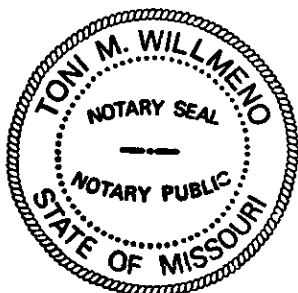
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David P. Broadwater, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



David P. Broadwater

Subscribed and sworn to before me this 29th day of February, 2000.




Notary Public, State of Missouri

TONI M. WILLMENO
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF CALLAWAY
My Commission Expires June 24, 2000

DAVID BROADWATER

<u>COMPANY</u>	<u>CASE NO.</u>
Empire District Electric	ER-95-279
Laclede Gas Company	GR-96-193
Missouri Gas Energy	GR-96-285
Empire District Electric	ER-97-81
Empire District Electric	ER-97-82
Kansas City Power & Light	EO-97-84
Union Electric	EO-97-86
Missouri-American Water Company	WR-97-237
St. Louis County Water	WR-97-382
Laclede Gas Company	GR-98-374
Laclede Gas Company	GR-99-315
AmerenUE	EO-2000-205
Kansas City Power & Light	EO-2000-210