

BV
TKS
DE
RO

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 30th
day of June, 1998.

In the Matter of the Application of)
Atmos Energy Corporation, through its)
Divisions Greeley Gas Company and)
United Cities Gas Company, for)
Authority to Issue Up to a Total of)
\$150,000,000 in Unsecured Notes or)
Debentures.)

Case No. GF-98-477

ORDER APPROVING FINANCING

On April 22, 1998, Atmos Energy Corporation, through its divisions Greeley Gas Company and United Cities Gas Company (Atmos or Company), filed an application with the Commission requesting approval to issue and sell up to \$150,000,000 in unsecured notes or debentures (debt securities) with maturities up to 30 years. Atmos states that the issuance of the debt securities will be used for general corporate purposes, including the repayment of short-term debt. The interest rate to be paid on the debt securities will be based on a spread above the applicable U.S. Government Treasury Bond rate. The interest rate objective is to be below 7.0%. The debt securities will be unsecured obligations of the Company and will rank equally and ratably with all other unsecured indebtedness of the Company. The Company did request expedited consideration of its application in paragraph 8 of its application indicating that its target date for issuance of the debt securities was on or about June 10, 1998. On June 11, 1998, the Company filed a Motion for Expedited Consideration of Application requesting

approval of its application to issue debt securities to be effective no later than June 19, 1998.

On June 18, 1998, the Staff of the Commission (Staff) filed its recommendation. In that recommendation, the Staff states that Atmos plans to retire about 70% of its outstanding short-term debt (primarily for working capital and the funding of construction projects) with the debentures. Staff notes that Atmos believes it is advantageous to convert short-term debt into long-term debt since long-term interest rates are at a 20-year low.

Staff comments note that Atmos has a current credit rating of "A-" from Standard & Poor's. Atmos' current capital structure consists of 61.36% debt and 38.64% equity. According to Atmos' pro forma financial statements, the \$150 million in 7% debentures will replace short-term debt with long-term debt. As a result, there will be no change in the overall debt and equity ratios. However, the long-term debt ratio will increase from 35.45% to 53.64%, while the short-term debt ratio will decrease from 25.91% to 7.72%. The Staff adds that Atmos' pre-tax interest coverage ratio (earnings before interest and taxes, divided by interest) will fall from 4.70x to 4.49x. However, this still compares favorably to similarly rated utilities that have a pre-tax interest coverage ratio of 3.53x. Atmos' funds flow interest coverage ratio (funds from operations plus interest, divided by interest) will fall from 5.58x to 5.34x. However, this ratio also compares favorably to the peer group ratio of 4.60x. Atmos' funds from operations to total debt ratio will drop 18 basis points to 28.36%. This ratio is close to that of "AA" rated utilities (28.49%), and will be approximately 372 basis points above the peer group ratio of 24.64%.

Staff states that it verified the current interest rates, according to Value Line's Selection & Opinion, June 12, 1998, noting that the current yield on long-term corporate bonds for similarly rated utilities was 6.62%. The yield for the Atmos should be comparable to this index.

The Staff recommendation states some concern and specifically notes this recommendation is not an endorsement of the Company's capital structure or its existing capitalization plans. Based on its review, the Staff recommends that the Commission approve the application submitted by Atmos with the following conditions:

- a. That Atmos file with the Commission the final terms and conditions, including the aggregate principal amount of debentures to be sold, estimated expenses, and the portion subject to the Commission's fee schedule to the Commission's Official Case File.
- b. That the Company file with the Commission any information concerning communication with credit rating agencies concerning this debt or any other matter.
- c. That the interest rate for this debt issuance is not to exceed 7%.
- d. That the Company file with the Commission any information concerning deviations from its stated use of the funds or any information that would materially change the pro forma capitalization and financial ratios.
- e. That the Commission reserves the right to consider the ratemaking treatment to be afforded these transactions and the resulting cost of capital in a later proceeding.

On June 23, 1998, Atmos Energy Corporation filed its Response to Staff's Recommendation objecting to Staff's third condition (c. above) which would restrict the interest rate on the new debt issuance to a rate not to exceed 7%. The company states that the company's interest rate objective for the debt securities remains below 7%, and if the debt securities were issued today that objective would be achieved. While the Company is hopeful that it can achieve its interest rate objective,

interest rates are market driven and as such are subject to change on a daily basis. Atmos further states that the Staff has not asserted that there would be a detriment to the public interest in the event the debt securities were issued at a rate above 7%. The Company requests that the Commission approve the issuance of debt securities without the condition that the interest rate is not to exceed 7%.

On June 26, 1998, Staff filed its reply memorandum stating that the Staff does not dispute the Company's assertion that "due to the uncertainty inherent in market interest rates, it is impossible to guarantee that interest rates will not exceed 7.0% prior to the date of issuance;" however, Staff's recommendation that the Commission approve the long term financing as long as the interest rate did not exceed 7.0% was meant to reinforce the appropriate interest rate level, as endorsed by the Company itself. In addition, Staff states that if the Company acts expeditiously, it should have no difficulty in obtaining a qualifying interest rate.

The Commission has reviewed the Atmos application, the accompanying documents, Staff's recommendation, Atmos' Response to Staff's memorandum, Staff's Reply to Atmos' Response, and the Commission finds the proposed issuance and sale of debt securities by Atmos to be in the public interest. The Commission will approve the application subject to certain conditions.

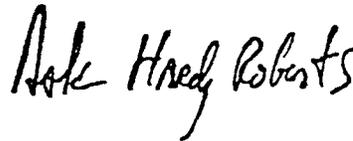
IT IS THEREFORE ORDERED:

1. That Atmos Energy Corporation is hereby authorized to issue and sell up to \$150,000,000 in unsecured notes or debentures with

maturities up to 30 years, as set out in its application in this case, subject to the following conditions:

- a. That Atmos file with the Commission the final terms and conditions, including the aggregate principal amount of debentures to be sold, estimated expenses, and the portion subject to the Commission's fee schedule to the Commission's Official Case File.
 - b. That the Company file with the Commission any information concerning communication with credit rating agencies concerning this debt or any other matter.
 - c. That the Company file with the Commission any information concerning deviations from its stated use of the funds or any information that would materially change the pro forma capitalization and financial ratios.
 - d. That the Commission reserves the right to consider the ratemaking treatment to be afforded these transactions and the resulting cost of capital in a later proceeding.
2. That this order shall become effective on June 30, 1998.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Crumpton, Murray,
Schemenauer and Drainer, CC., concur.

Register, Regulatory Law Judge