

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 3, 2003

IN RE:

**PETITION OF UNITED CITIES GAS COMPANY FOR
APPROVAL OF A FRANCHISE AGREEMENT WITH
UNION CITY, TENNESSEE**

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**DOCKET NO.
01-00309**

INITIAL ORDER OF HEARING OFFICER ON THE MERITS

This matter is before the Hearing Officer of the Tennessee Regulatory Authority (the "Authority") for a decision on the merits with regard to the *Petition of United Cities Gas Company for Approval of a Franchise Agreement with Union City, Tennessee* (the "*Petition*") filed by United Cities Gas Company ("United Cities" or the "Company").

United Cities' *Petition*

In its *Petition*, filed on April 6, 2001, United Cities requests Authority approval, pursuant to Tenn. Code Ann. § 65-4-107, of a franchise agreement contained in an Union City, Tennessee ordinance entered by the city of Union City, Tennessee on August 31, 2000 and effective as of that date. As stated in United Cities' *Petition*, the ordinance grants to United Cities the nonexclusive right to provide natural gas service in Union City for a term of fifteen years. A copy of the ordinance is attached hereto as Exhibit 1. No person sought intervention in this matter.

Pursuant to a public notice issued on May 1, 2003, a Hearing on the merits of United Cities' *Petition* was held on May 28, 2003. The Company was represented by the following counsel:

Misty Smith Kelley, Esq.; Baker, Donelson, Bearman & Caldwell, 1800 Republic Center, 633 Chestnut Street, Chattanooga, Tennessee 37450

Requirement of and Standards for Authority Approval

Tenn. Code Ann. § 65-4-107 provides that no grant of a privilege or franchise from the State or a political subdivision of the State to a public utility shall be valid until approved by the Authority. Approval pursuant to Tenn. Code Ann. § 65-4-107 requires a determination by the Authority, after hearing, that "such privilege or franchise is necessary and proper for the public convenience and properly conserves the public interest."¹ Tenn. Code Ann. § 65-4-107 further provides that in considering such privilege or franchise, the Authority "shall have the power, if it so approves, to impose conditions as to construction, equipment, maintenance, service or operation as the public convenience and interest may reasonably require . . ."²

Pre-filed Testimony of John Glerum

On May 23, 2003, United Cities filed the Direct Testimony of John Glerum, Operations Manager for United Cities, Union City, Tennessee. Mr. Glerum stated that United Cities' natural gas distribution system in Union City contains approximately eighty-seven linear miles of pipe and is interconnected with and dependent upon the distribution system located within the city limits of Union City. United Cities serves approximately 4611 customers in Union City, of whom approximately 90% are residential and 10% are commercial and industrial. The majority of the pipeline in United Cities' distribution system

¹ Tenn. Code Ann. § 65-4-107.

is located within the public rights-of-way. Mr. Glerum stated that without access to these public rights-of-way, United Cities could not adequately operate, maintain, or replace its distribution system.

According to Mr. Glerum, United Cities and its predecessors have operated for many years in Union City under various franchise agreements with the City. The previous thirty year agreement having expired, United Cities entered into negotiations with the City in 2000 for a new agreement. Representatives of United Cities contacted Don Thornton, Union City Manager, and negotiated the terms of the new agreement with City Council and Mr. Thornton. According to Mr. Glerum, the new franchise agreement was the result of arm's-length negotiations between United Cities and Obion County.

Mr. Glerum further stated:

Without this franchise, United Cities would be unable to feasibly operate, maintain, replace and/or extend the service to the customers it currently serves. In addition, there are no other feasible options for the supply of natural gas to the vast majority of the customers currently served by United Cities in Union City. These customers depend on United Cities to supply natural gas to their homes and businesses.³

Testimony at the May 28, 2003 Hearing

At the May 28, 2003 Hearing, Mr. Glerum adopted his pre-filed testimony filed on May 23, 2003 and further testified regarding the Obion County franchise agreement. Mr. Glerum stated that United Cities attempted to negotiate a longer term than fifteen years but was unable to secure a longer term. He stated that most franchise agreements negotiated at the present time are for a much shorter period.

² *Id.*

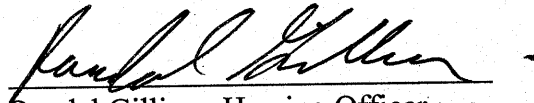
³ Pre-filed Direct Testimony of John Glerum, May 23, 2003, p. 2.

Findings and Conclusions

United Cities' franchise agreement with United Cities continues a longstanding franchise arrangement in a community where United Cities has extensive operations that rely on use of the public rights-of-way. This franchise arrangement, which was undisputed, has been and continues to be of mutual benefit to United Cities, its customers, and the community. The Hearing Officer finds that this agreement is in the public interest. Accordingly, the Union City agreement is approved pursuant to Tenn. Code Ann. § 65-4-107.

IT IS THEREFORE ORDERED THAT:

1. The proposed franchise agreement between United Cities Gas Company and Union City, Tennessee is approved.
2. Any party aggrieved by the Hearing Officer's decision in this matter may file a Petition for Reconsideration with the Hearing Officer within fifteen days from the date of this Order.


Randal Gilliam, Hearing Officer

ORDINANCE NO. 2-01

AN ORDINANCE GRANTING TO UNITED CITIES GAS, A DIVISION OF ATMOS ENERGY CORPORATION, ITS SUCCESSORS AND ASSIGNS, A FRANCHISE TO PROVIDE THE CITY OF UNION CITY, OBION COUNTY, TENNESSEE, WITH NATURAL GAS SERVICE, AND THE RIGHT TO CONSTRUCT, MAINTAIN, AND OPERATE A SYSTEM OF GAS MAINS AND SERVICE PIPES FOR THE PURPOSE OF TRANSMITTING AND DISTRIBUTING GAS IN, UPON, ACROSS, ALONG AND UNDER THE HIGHWAYS, STREETS, AVENUES, ROADS, ALLEYS, LANES, WAYS, UTILITY EASEMENTS, PARKWAYS AND OTHER PUBLIC GROUNDS OF THE CITY OF UNION CITY, OBION COUNTY, TENNESSEE

BE IT ORDAINED BY THE MAYOR AND COUNCILMEN OF THE CITY OF UNION CITY, TENNESSEE, THAT:

SECTION 1. There is hereby granted to United Cities Gas Company, a division of Atmos Energy Corporation, a corporation organized and existing under the laws of the State of Texas, and the Commonwealth of Virginia, its successors and assigns (hereinafter for convenience, individually and collectively referred to as "Company"), the right, authority, privilege, and non-exclusive franchise to serve the City of Union City (hereinafter for convenience referred to as "Municipality"), and in the providing of such natural gas service to construct, maintain and operate a system of gas mains, service pipes, regulator stations and all other necessary and appropriate equipment and facilities for the distribution of gas, in, upon, under, along, across and over the highways, streets, avenues, road, alleys, lanes, ways, utility easements, parkways and other public grounds in the present or future corporate limits of the Municipality, for the supplying of gas and its by-products to said Municipality and the inhabitants, institutions and businesses thereof, and for such other appliances, fixtures and facilities as may be necessary for the transmission, distribution and sale of such to said Municipality and the inhabitants thereof for domestic, commercial, industrial and institutional uses, and other purposes for which it is or may hereafter be used, for a period of fifteen (15) years from and after the passage and approval of this Ordinance.

EXHIBIT**1**

SECTION 2. All gas mains, service pipes, fixtures, facilities and other appliances so laid, constructed and maintained by virtue of this Ordinance, shall be so laid, constructed and maintained in accordance with good engineering principles, good workmanship and with all applicable engineering codes and in accordance with any applicable Statutes of the State of Tennessee and the Rules and Regulations of the Tennessee Regulatory Authority or of any other governmental regulatory commission, board or agency having jurisdiction over the Company. Said facilities shall be constructed as not to interfere with the drainage of said Municipality or unreasonably interfere with or injure any sewer or any other improvement which said Municipality has heretofore made or may hereafter make in, upon or along any highway, street, avenue, road, alley, lane, way, utility easement, parkway, or other public ground, or unnecessarily impede or obstruct such highways, streets, avenues, roads, alleys, lanes, ways, utility easements, parkways, and other public grounds of said Municipality, and shall conform to the grade as then or hereafter established. The Company agrees to attempt to utilize known right-of-way whenever practical before resorting to right of condemnation to which the Company may be entitled to utilize by law.

SECTION 3. When the streets, avenues, alleys and other public ways are opened, or any other opening is made by the Company within the Municipality, where the same is made for the purpose of laying, constructing, replacing or repairing the mains, pipes and other appliances and fixtures of the Company, the Company shall place and maintain necessary safety devices, barriers, lights and warnings to properly notify persons of any dangers resulting from such entrances, and shall comply with applicable safety regulations required by federal, state, and local laws.

SECTION 4. In the event it becomes necessary or expedient for the Municipality to change the course or grade of any highway, street, avenue, road, alley, way, parkway, or other public ground in which the Company is maintaining gas mains, pipes or other appliances and fixtures, then, upon the written request of the Municipality, the Company, at its expense, will remove

or change the location or depth of such mains, pipes or other appliances and fixtures, as necessary to conform to the proposed street alteration.

SECTION 5. Whenever the Company plans to enter upon any highway, street, avenue, road, alley, lane, way, utility easement, parkway, or other public ground for the purpose of constructing, replacing or repairing any gas mains, pipes, or other appliances, it will if the Municipality desires, notify the Municipality and file a plan or map of the proposed work, if practicable, before commencing same. Whenever any highway, street, avenue, road, alley, lane, way, utility easement, parkway or other public way shall be entered, dug up or disturbed by the Company, the Company shall, at its expense and as soon as possible after the work is completed, restore such highway, street, avenue, road, alley, lane, way, utility easement, parkway, or other public ground in as good condition as existed before the work was done. In the event the Company shall fail to fulfill its obligations under this section, the Municipality, after giving the Company reasonable written notice, and failure of the Company to make such repairs or restoration within three (3) working days after the receipt of such notice by the Company, may make the necessary restoration or repairs itself and the Company shall be liable and shall reimburse the Municipality for the cost of the same, plus thirty (30%) percent.

The provisions of this section shall not be applied nor interpreted in such a way as to prevent or delay Company work that may be required as a result of any emergency, leak or other immediate hazard or danger.

SECTION 6. The purpose and intent of this franchise is that the Company will provide and maintain in a good state of repair a gas distribution plant and facilities, including but not limited to, mains, pipes, appliances, equipment, machinery, fixtures, meters and customer services to and for the citizens of the Municipality. To achieve these ends, the Company will provide, but not be limited to, the following:

- A. An ample supply of natural gas for the present and future residential, commercial and industrial needs of the Municipality;

- B. Maintain and staff a customer service office within the Municipality where complaints may be made between the hours of 9:00 a.m. and 4:00 p.m. at least five (5) days a week;
- C. Maintain and staff a customers service office or by contract provide a location or location(s) within the Municipality where customers' gas bills may be paid at least between the hours of 9:00 a.m. and 4:00 p.m. at least five (5) days a week;
- D. Pay the fees as set forth in Section 11; and
- E. Maintain and staff a warehouse or repair depot in the Municipality where parts, pipes, meters, tools, machinery and equipment are maintained and housed to service the company's facilities and its customers, including but not limited to, residences, businesses, and industries of the Municipality.

The failure of the Company to do or perform any of the foregoing provisions of this section shall constitute a material breach of the franchise and if there is a failure to remedy the breach within ten (10) days after receiving written notice from the City Manager (or the Mayor) of the Municipality, the Mayor and Council, in their sole and absolute discretion, may terminate this franchise and the failure of the Municipality to terminate this franchise on account of a breach or notice of a breach given by the Municipality to the Company shall not constitute a waiver of such breach, provided, however, the Company, after receiving such notice may request a hearing before the Mayor and Council of the Municipality and such hearing will be conducted at the City Hall of the Municipality within twenty (20) days from receipt of the written request of the Company at such date and time as fixed by the Mayor and Council of the Municipality. The decision of the Mayor and Council shall be final and conclusive. The decision of the Mayor and Council may be reviewed by common law writ of certiorari filed by the Company in Obion County Chancery Court and during the pendency of

the outcome of the litigation, the franchise shall continue in full force and effect.

SECTION 7. The Company shall at all times indemnify and hold harmless the Municipality from and against any and all lawful judgements and/or claims for injury to any person or property due to the negligence of the Company, its employees, agents, servants, and contractors in the construction, maintenance, repair, installation, and/or operation of the system and its extensions, alterations, relocation, replacement of parts of the system and/or the failure of the Company to provide services or the negligence of the Company in providing services to citizens of the Municipality or in the Union City service area. The Municipality shall not be liable for the failure of the Company to perform any of its obligations under this franchise irrespective of whether the Municipality's personnel has notice or information of any condition caused or contributed to by the Company which does harm to persons or property. However, any written notice of demand received by Mayor or City Manager against the Municipality on account of the Company's services, facilities, installations, repair work, or any other action of the Company or the inaction of the Company required by this franchise will be forwarded to the Company within twenty (20) days after its receipt.

SECTION 8. As a minimum, the Company shall maintain a staff of at least three (3) qualified persons who reside within the Municipality or at any location within Obion County, Tennessee, provided that the response time by the employee is not more than thirty (30) minutes, and at least one (1) of the three (3) employees shall be available twenty-four (24) hours every day for performing emergency services, such as but not limited to, maintenance, construction or repair of Company's facilities or for performing emergency services such as, but not limited to, fires, accidents, emergencies, or damage to gas mains, pipes, Company appliances or meters. Irrespective of the foregoing sentence, the Company shall provide adequate equipment based in the Municipality and

service personnel to respond to customer service calls from locations within the Municipality and shall provide the local public safety agency, including the Municipality's police and fire departments and the Obion County 911 center, the Company's toll free emergency telephone number and a current listing of direct local and pager numbers of the local Company's agents or employees to contact in case of emergency.

SECTION 9. The Municipality and the Company hereby agree that this Ordinance shall from time to time be subject to rules and regulations adopted by the Company if approved by the Tennessee Regulatory Authority or any other regulatory body having jurisdiction thereof during the term of this Ordinance, and shall also be subject to all rules and regulations adopted and approved by the Tennessee Regulatory Authority or any other regulatory body and that all such rules and regulations shall be and come a part of this Ordinance to the same extent and with the same effect as if said Rules and Regulations were herein set out in full. The Company shall not be obligated or required to make any extension of distribution mains or service lines except in accordance with the provisions relating thereto adopted or approved by the Tennessee Regulatory Authority, or any other regulatory body having jurisdiction thereof during the term of this Ordinance.

SECTION 10. Nothing herein contained shall be construed as preventing the Company from installing, placing, replacing, taking up, repairing or removing gas pipes, mains, service pipes or other devices for furnishing gas services, from using any easements for gas service which are shown on any plats of any portion of said Municipality heretofore or hereafter platted or recorded or any such easement which may hereafter be created, granted or dedicated for any such utility purposes by any person, firm or corporation whatsoever.

SECTION 11. The Company shall collect and pay annually to the Municipality a sum equal to five (5%) percent of the gross receipts from

retail gas sales, said payments to be made monthly by the 20th day of the second month after the said sales are made. It shall be the duty of the Company to furnish to the Municipality a monthly statement of its gross receipts payable pursuant to the franchise. Upon the request of the Municipality, the books of the Company shall be produced at the office of the Company in Union City, Tennessee for a franchise fee audit by the Municipality during normal business hours and upon reasonable notice at a mutually agreeable time. In addition to the books and records produced by the Company, the Municipality may require additional records from the Company as it may deem appropriated to conduct its audit. The Company shall submit a written report and, at the Municipality's request, appear before the City Council at least on an annual basis to report on planned capital investments, extensions, system expansion, customer satisfaction and/or public safety response experience. In addition, the Municipality and the Company will endeavor to coordinate Company expansion and repair activities with Municipality's public works projects.

SECTION 12. In the event the Company desires to sell or transfer the entire assets of the gas business which is the subject of this Ordinance, then the Company must offer to the Municipality the opportunity to buy those assets located and situated in the Municipality's service area upon the same terms being offered to some other party. A statutory merger, consolidation, recapitalization, sale, or transfer of the common stock of the Company does not constitute a sale or transfer of assets. The Municipality will have sixty (60) days to accept the offer and an additional sixty (60) days to close said transaction, in the event the Municipality elects to exercise the option to purchase.

SECTION 13. If any section or portion of any section of this Ordinance shall hereafter be determined by any court of competent authority to be invalid, the Company and the Municipality, at their election, may ratify or confirm the remaining portions of the Ordinance

and upon such ratification or confirmation the remaining portions of this Ordinance shall remain in full force and effect.

SECTION 14. The Company shall, within sixty (60) days after passage of the Ordinance, file with the City Clerk or other appropriate officials of the Municipality its unconditional acceptance signed by its President or Vice President of the terms and conditions of this Ordinance and after filing of this acceptance, this Ordinance shall constitute a contract between the parties thereto and shall, subject to the rights and powers vested in the Tennessee Regulatory Authority or such other regulatory body of the State of Tennessee as may hereafter succeed to the rights and powers of the Tennessee Regulatory Authority or as may exercise statutory jurisdiction of gas companies furnishing gas service in the State of Tennessee, be the measure of the rights, powers, obligations, privileges and liabilities of said Municipality and of said Company.

SECTION 15. All notices required by this franchise shall be given in writing and forwarded to the addresses by certified mail of the United States. All notices to the Municipality shall be addressed to:

Mayor
City of Union City
P.O. Box 9
Union City, Tennessee 38281

All notices to the Company shall be addressed to:

Manager
United Cities Gas Company
Union City, Tennessee

The return receipt of the certified mail shall be conclusive evidence of the receipt of the mail by the addressee.

SECTION 16.

A. The Company shall not sell or assign its rights and privileges under this franchise for three (3) years after the grant of the franchise or any part thereof to any other person, firm or corporation unless by written request by the Company and agreed by the Municipality by Ordinance. After three (3) years,

the Company may sell or assign this franchise after a public hearing is held by the City Council, provided, after the public hearing, the sale of assignment is approved by Ordinance.

B. No sale or assignment shall be effective unless written notice of the sale or assignment is given the Municipality at least one hundred twenty (120) days from the next regular meeting date of the Mayor and Council of the Municipality. The notice shall include the name, address, and telephone number of the proposed buyer; the names of three references for the buyer which include buyer's bank; an authorization for the bank to disclose all financial matters concerning the buyer; and the details of the selling price and the terms and conditions of the sale.

C. Nothing in this Section shall be deemed to prohibit a mortgage or pledge of the franchise or of its properties for financing purposes.

SECTION 17. All the privileges given and obligations created by this Ordinance shall be binding upon the successors and assigns of the Company.

SECTION 18. This Ordinance shall take effect (a) after second and final reading by the Mayor and Council; and (b) thirty (30) days after its publication in the official city newspaper unless twenty percent (20%) of the qualified voters of the City shall sign a petition and present it to the Mayor and Council during such thirty (30) day period requesting that the Ordinance be referred to the electors, in which case it must receive the approval of a majority of the electors voting thereon at a municipal election.

CITY OF UNION CITY, TENNESSEE

BY: _____

MAYOR

ATTEST:

City Clerk

APPROVED AS TO FORM AND LEGALITY:

City Attorney

Passed First Reading: July 18, 2000.Passed Second Reading: August 1, 2000.Published in Official City Newspaper: July 25, 2000.Effective Date: August 31, 2000.