

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

PETITION OF UNITED CITIES GAS
COMPANY FOR APPROVAL OF AN
AMENDMENT TO ITS FRANCHISE
AGREEMENT WITH ELIZABETHTON,
TENNESSEE

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) TN REG. AUTH. JUNE 4, 2003
) Docket No. 02-01020
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**DIRECT TESTIMONY OF
RICKY WATFORD**

Q: Please state your name, place of employment and title.

A: My name is Ricky Watford. I am employed by United Cities Gas Company¹ as the Operations Supervisor for Johnson City and Elizabethton, Tennessee.

Q: In your capacity as Operations Supervisor for United Cities, are you familiar with the natural gas distribution system operated by United Cities in Elizabethton, Tennessee?

A: Yes. I am very familiar with the operation in Elizabethton and the other adjoining communities that are served by the system. I was also the authorized person on behalf of United Cities to negotiate the 2002 amendment to the franchise agreement with the City of Elizabethton, Tennessee.

Q: Please give the authority an overall description of the Elizabethton, Tennessee system and the customers served.

A: The total number of miles of pipe in the Elizabethton, Tennessee system which serves both residents inside and outside of the City is approximately 87 miles. Of the total amount of pipe, approximately 26 miles is located outside of Elizabethton city limits but is interconnected and dependent upon the distribution system located within the city limits of Elizabethton, Tennessee.

¹ United Cities Gas Company is an unincorporated division of Atmos Energy Corporation doing business in Tennessee as United Cities Gas Company. As indicated by a recent tariff filing, Atmos Energy Corporation has elected to cease doing business as United Cities Gas Company, and to instead use the company's legal corporate name, Atmos Energy Corporation. In all proceedings before the Tennessee Regulatory Authority, the terms "United Cities Gas Company" and "Atmos Energy Corporation" have the same meaning and can be used interchangeably.

There are approximately 2900 customers located within the city limits of Elizabethton served by the natural gas distribution system owned and operated by United Cities. Of that amount, approximately 80% are residential customers and 20% are commercial and industrial customers. The majority of the pipeline in the United City distribution system is located within the public rights of way of the City of Elizabethton. Without access to these public rights of way, United Cities could not adequately maintain, replace and/or operate its distribution system.

Q: Has United Cities operated a natural gas transmission and distribution system in the City of Elizabethton for a number of years?

A: Yes, United Cities and its predecessors have operated for many years in Elizabethton under various franchise agreements with the City. Each of these agreements has allowed United Cities to operate a gas transmission and distribution system within Elizabethton and to use the public rights of way of the City for its distribution system and related plant and access thereto. The current franchise ordinance United Cities operates under today was enacted July 23, 1987, and is for a twenty-year term, which will expire in April 2008. The 1987 franchise ordinance expressly stated that no franchise fee would be charged.

Q: In your opinion is the continued operation by United Cities under the franchise submitted for approval to the Authority in this proceeding in the public interest?

A: By all means. 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 Elizabethton. These customers depend on United Cities to supply natural gas to their homes and businesses.

Q: At some point in 2002 did the City of Elizabethton approach United Cities with regard to negotiating an amendment to the franchise agreement to provide for a franchise fee?

A: Yes. Mr. Charlie Stahl, City Manager for the City of Elizabethton, contacted representatives of United Cities to communicate that the City desired to enter into negotiations to allow the charging of a franchise fee.

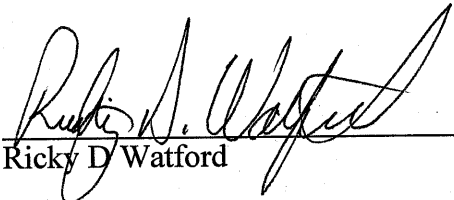
Q: To what extent were you involved in the negotiations with the City of Elizabethton in arriving at the franchise amendment which is currently pending before the Authority?

A: As I indicated above, I am the person that was designated by United Cities to negotiate the franchise amendment, together with Bobby Cox, the Operations Supervisor for United Cities region that includes Elizabethton. Mr. Stahl negotiated on behalf of the City.


Q: Please describe the process of the negotiation that led up to the passage of the franchise amendment.

- A: Mr. Cox and I met with Mr. Stahl on more than one occasion. Mr. Stahl communicated that the City wished to begin charging a franchise fee based on a percentage of gross receipts. Mr. Cox and I attempted to negotiate the lowest fee possible, and we put together some numbers for Mr. Stahl to show how the proposed fee would impact customer rates. The parties eventually agreed on a 5% fee, and United Cities drafted a proposed franchise amendment and forwarded it to the City. The amendment went through several drafts, with both sides making suggested changes to the language. Once the franchise amendment was deemed acceptable by both parties, it was approved by the City Council and enacted into an ordinance.
- Q: Was the amended franchise agreement the product of an arm's-length negotiation process between the City and United Cities?
- A: Yes. The City did not unilaterally impose the fee on United Cities. The City and United Cities engaged in negotiations which resulted in an agreed-upon fee of 5%. It was only after this agreement was reached did the City enact the ordinance enforcing the fee.
- Q: What is your opinion in regard to the necessity of the approval of this amendment?
- A: The amended franchise agreement is necessary and proper for the public convenience and properly conserves and protects the public interest of the citizens of Elizabethton, Tennessee.

No further questions.


Ricky D. Watford

Sworn to, and subscribed before me
this 3rd day of January, 2003.


Notary Public

My Commission Expires: 10/27/04

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been mailed, postage prepaid, to the following person(s), this 11 day of January, 2003.

Richard Collier
Jonathan N. Wike
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Charlie Stahl
City Manager
136 Sycamore Street
Elizabethton, TN 37643

By: Joc Connor w/penn
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