

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

IN RE:

**PETITION OF ATMOS ENERGY
CORPORATION FOR APPROVAL
OF MODIFIED FRANCHISE FEE
PURSUANT TO APPROVED
FRANCHISE AGREEMENT WITH THE
CITY OF JOHNSON CITY, TENNESSEE**

Docket No. 14- 00074

**DIRECT TESTIMONY OF
JAMES PUGH
ON BEHALF OF ATMOS ENERGY CORPORATION**

Q: Please state your name and business address.

A: My name is James Pugh. My business address is 2833 West Market Street, Johnson City, Tennessee.

Q: By whom and in what capacity are you employed?

A: I am employed by Atmos Energy Corporation, Kentucky/Mid-States Division ("Atmos") as Operations Supervisor for the Johnson City area of operations which includes Atmos' operations in the City of Johnson City, Tennessee.

Q: Please describe your work history with Atmos.

A: I have been employed by Atmos for twenty-nine years. I began my career as a Town Manager and have held various positions in Atmos with increasing responsibilities. I have been in my current position for sixteen years.

Q: Have you previously offered testimony in any regulatory proceedings?

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A: Yes.

Q: What is the purpose of your testimony in this case?

A: I am testifying on behalf of Atmos in support of the petition filed to approve the modified franchise fee between Atmos and the City of Johnson City.

Q: In your capacity as the Operations Supervisor for the Johnson City region of Atmos, are you familiar with the natural gas distribution system operated by Atmos in Johnson City, Tennessee?

A: Yes. I am familiar with the operation in Johnson City, Tennessee, as well as the operations in the other surrounding communities that are served by the Atmos system.

Q: Please give the Authority an overall description of the Johnson City, Tennessee system and the customers served.

A: There are approximately 10,850 customers located within the city limits being served by the natural gas distribution system owned and operated by Atmos. Of that amount, approximately 82% are residential customers and 18% are in other customer classes such as commercial and industrial.

The Atmos system consists of approximately 345 miles of pipe within the Johnson City, Tennessee city limits. This pipe is comprised of distribution mains, transmission mains, and service lines. The majority of this pipe is located within the public rights-of-way of Johnson City. Without access to these public rights-of-way, Atmos could not adequately maintain, replace and/or operate its distribution system.

1 **Q: Has Atmos operated a natural gas distribution system in Johnson City for a number**
2 **of years?**

3 A: Yes. Atmos and its predecessor entity have operated for many years in Johnson City
4 under franchise agreements with the City. The franchise agreement Ordinance No. 2726
5 adopted in 1988 allowed Atmos' predecessor entity to operate a gas system within
6 Johnson City and to use the public rights of way of the City for its distribution system
7 and related plant and access thereto for a twenty-five year period. Ordinance 2726 was
8 amended in 1997 with Ordinance 3511 to modify the franchise fee requirements.
9 Ordinances 3511 and 2726 were further amended in 2003 with the current franchise
10 agreement Ordinance 3869-03. Ordinance 3869-03 further modified the franchise fee
11 requirements and extended the term of the franchise agreement for an additional twenty-
12 five year period. For the past eleven years Atmos has operated a gas system within the
13 City under the franchise agreement Ordinance No. 3869-03, which was approved by the
14 TRA in Docket No. 03-00520.

15 **Q: Could you please explain the circumstances that caused a need for a modified**
16 **franchise fee between Atmos and the City of Johnson City.**

17 A: Yes. Atmos and its predecessor entity have been providing natural gas service to the City
18 of Johnson City for the last twenty-six years pursuant to the ordinances I have previously
19 mentioned. Ordinance 3869-03 sets a franchise fee of 3% of annual gross revenue of
20 natural gas sales made, billed and collected by Atmos on all classes of customers who are
21 located within the City limits of Johnson City. The Ordinance further states that, subject
22 to the approval of the Tennessee Regulatory Authority, the franchise fee may be modified
23 annually at the election of Johnson City throughout the term of the franchise. The City of

1 Johnson City recently invoked its rights under this provision and, after negotiations with
2 Atmos, an agreement was reached to raise the franchise fee to 5% of natural gas sales
3 made, billed and collected by Atmos on all classes of customers within the City limits of
4 Johnson City, subject to TRA approval.

5 **Q: When did these negotiations begin?**

6 A: The Company and the City began discussions in summer of 2013 and a modified
7 franchise fee and Resolution by the City of Johnson City followed from those
8 discussions.

9 **Q: How does the modified franchise fee compare with the old one?**

10 A: The current franchise fee is equal to 3% of Atmos' gross receipts derived from the sale
11 and distribution by Atmos of natural gas within the city limits of Johnson City during the
12 preceding calendar year. The modified franchise fee will adjust this amount to 5%.

13 **Q: Is TRA approval required for this modified franchise fee?**

14 A: Yes. Under § 65-4-107 of Tennessee Code Annotated, and the terms of the Ordinance
15 3869-03, the modified franchise fee will not be valid unless and until approved by this
16 Authority.

17 **Q: What is the standard to be utilized by the Authority in determining whether to**
18 **approve the modified franchise fee?**

19 A: Under the statute, the Authority is authorized to approve the resolution if it finds that it
20 "is necessary and proper for the public convenience and properly conserves the public
21 interest."

1 **Q: In your opinion, is the Johnson City modified franchise fee and the terms of the**
2 **franchise agreement necessary and proper for the public convenience and in the**
3 **public interest?**

4 **A:** Yes. The modified franchise fee is necessary to allow the continuation of a long-term
5 arrangement through which the current and future residents, business enterprises and
6 governmental facilities located within the City of Johnson City will be able to receive,
7 under the supervisory jurisdiction of the Authority, the benefits of continuing natural gas
8 service provided by Atmos for an extended period. Approval will ensure the continuing
9 availability of high-quality natural gas service to the City of Johnson City. The other
10 terms of the franchise agreement remain unchanged from what was approved by the
11 Authority in Docket No. 03-00520.


12 **Q: What are you asking the Authority to do in this proceeding?**

13 **A:** Based on the facts discussed above, we are asking the Authority to approve the modified
14 franchise fee between Atmos and the City of Johnson City as reflected in Exhibit 1 to the
15 Petition in this matter.

16 **Q: Do you have anything further to add to your testimony?**

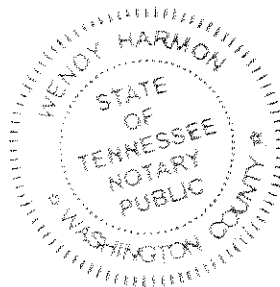
17 **A:** Not at this time.

SIGNATURES FOLLOW ON NEXT PAGE


James Pugh, Operations Supervisor
for the Johnson City Area of Operations

Sworn to and subscribed before me
this 4th day of August, 2014


Notary Public



My Commission Expires: Sept. 29, 2014