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Missouri Public
Service Commission

EXHIBIT

310

MPC
to MPC Exhibit No. 310
Case No(s) GC-2006-0491
Date 12/13/06 Rptr MV

-----Original Message-----

From: Wood, Warren

Sent: Thursday, August 29, 2002 8:43 AM

To: Sommerer, David; Morrissey, Carmen; Schwarz, Tim; Imhoff, Tom

Subject: RE: Bundled transactions

Dave,

Thanks for the review of Dave Reis' e-mail and your thoughts. The underlying question comes down this:

Mr. Reis has been asked by some of his municipal customers to provide service that extends back to and includes interstate transportation capacity. The municipal customers also don't want to deal with each of the intrastate lines, they want one contract (w/different sections if needed) that gets them the gas transportation service. Mr. Reis believes that if he can pull together a simplified process it will help with his customer retention/growth. Mr. Reis believes that between existing discounts on the intrastate lines and a negotiated discount on PEPL (when he completes the MRT connect) he can offer a better package deal than anyone else.

On your initial thoughts:

Option #1 seems to go against FERC policy of not allowing the monopoly pipeline continue with a merchant service. This was done so that the pipeline could not use its monopoly power in one area to benefit another competitive area. It also brings MPC close to operating as an LDC with all the attendant complexity of PGA/ACA process.

I agree that this seems to go against FERC policy of not allowing bundled transportation/supply. Mr. Reis' is not a service territory holder either and I don't see how he could have a PGA/ACA and I'm not in support of a move in this direction. At least not in Mr. Reis' regulated world.

Option #2, as described is confusing. I don't think Omega is a non-regulated LDC. I thought Fort Leonard Wood owned the distribution system (making it the "operator" for all the safety requirements) and therefore was similar to a "city" (Municipal). I thought Omega was a marketer serving FLW in that function. My question is, if Omega is a marketer (and is registered???) why can't it serve cities along I-44 already.

I also don't understand how Omega gets such a "free ride" (w/o affiliate transaction concerns) if they expand. It sure looks like an affiliate situation to me if they expand operations. Omega's operations currently just include FLW (operator of the line, gas supply, and gas safety functions). I believe that statutes have some language regarding when they would fall under PSC regulation.

Option #3 again makes me think of FERC regs. FERC 497 (I think) is a code of conduct for pipelines to follow if they have a marketing affiliate. My recollection is that the Missouri affiliate rule has some of these features AND a very important cost standard (all services must pass a test of fully distributed cost (FDC) or Fair Market Value (FMV). I can't think of anything that would preclude MPC to set up a marketing affiliate (sometimes tariffs have prohibitions against "resale", also the Div. Directors may have concerns) but MPC would likely come under the full impact of the affiliate transaction rule.

I agree with your concerns. If Mr. Reis wants to provide this bundled gas supply and transportation he is going to have to pass some test to show that the market had an equal shot at anything his marketer ends up taking in terms of capacity and customer information. The affiliate approach might take care of our gas supply concerns. I'll need to talk with Carmen on FERC 497.

Thanks,
Warren

-----Original Message-----

From: Sommerer, David
Sent: Tuesday, August 27, 2002 8:24 AM
To: Wood, Warren; Morrissey, Carmen; Schwarz, Tim; Imhoff, Tom
Subject: RE: Bundled transactions

Warren, I'm having a hard time understanding the underlying question. Is MPC concerned about the effect that propane is having on total through-put down the I-44 corridor? Are these suggestions to make the whole package more economical for various cities and IOU LDCs down the line. How would these bundled proposals be any cheaper than the current separate pieces?

Some initial thoughts:

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-----Original Message-----

From: Wood, Warren
Sent: Tuesday, August 27, 2002 7:28 AM
To: Morrissey, Carmen; Schwarz, Tim; Sommerer, David; Imhoff, Tom
Subject: FW: Bundled transactions

Dave and I spoke on Friday and it was determined that Dave's group can't bundle their transportation service (w/PEPL interstate capacity and gas). Dave had some other "creative" ideas that I made no commitments on. I asked him to send an e-mail with his ideas and that is what prompted the e-mail below. Please take a look at this and forward any thoughts on which approach is preferable (if any).

Thanks,
Warren

-----Original Message-----

From: David J. Ries [mailto:riesdj@msn.com]
Sent: Friday, August 23, 2002 4:17 PM
To: Wood, Warren
Subject: Bundled transactions

Warren, as we discussed yesterday the concept of Missouri Gas holding interstate capacity can't work because on interstate pipelines the capacity holder must have

title to the gas. It is clear that MGC can not buy and sell the natural gas to it's customers as it is restricted by the commission order.

There are basically 3 alternatives from which we could proceed.

We could completely change the current tariff of MGC to allow it to buy and sell commodity. The issues would be the expense of changing the tariffs, if the staff and commission would support such a change and if any of the existing customers would object to the change.

Another possibility would be for Omega Pipeline Company which provides distribution services to the Army on Fort Leonard Wood. Omega is a non-regulated LDC as it provides service to only the base under contract with the DOD. Omega currently buys natural gas, holds transportation on both interstate and intrastate pipelines and resells the commodity to FLW. Omega is also exempt under the interstate affiliate rules of Missouri Interstate since it is an LDC. Since Omega currently performs all of the necessary functions, selling gas to other customers along the transportation path would be a natural fit. My concern is whether this action would somehow change the regulated status of Omega. Omega currently holds transportation capacity on MPC and MGC to serve FLW and could contract for additional capacity to serve customers along the way. Alternatively, the small cities currently hold their own capacity on MPC and MGC and assign various third parties to be their agent under those agreements. Omega could continue to serve the Fort and act as agent for the cities the same way other parties are doing today. In the later case, there would be no affiliated transaction associated with Omega and MPC & MGC related to servicing the cities.

The last option would be to form a new marketing affiliate to perform this same function. This is not my preference as I do not expect to make any profit off of this service which is generally the business logic with forming a marketing affiliate.

The primary objective here is to make sure that the pipelines are collecting a fair share of the revenue as possible within their tariffs without making the retailers uncompetitive. The only thing I know for sure is that it is not working very well currently and that I need to be more involved in this process to develop a better economic picture for all of us. Please let me know what your collective thoughts are related to the above concept and questions.

Also I meant to ask you the other day, about HB 1402. I am told that this bill is intended to apply to LDC's but is worded so that it relates to gas corporations which would include MPC and MGC which obviously do not sell gas. Could you get someone to give me a read on whether this bill applies to the pipelines identified above? If so, what are we supposed to do?

Thanks for your help.

Dave Ries