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Imhoff, Tom

From: Imhoff, Tom

Sent: Tuesday, August 27, 2002 8:39 AM

To: Sommerer, David; Wood, Warren; Morrissey, Carmen; Schwarz, Tim

Subject: RE: Bundled transactions

Staff Exhibit No. 4
Case No(s). GC-2006-0491
Date 12/13/06 Rptr MV

I concur with Dave's comments.

-----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 intitial 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 attendent complexity of PGA/ACA process.

Option #2, as described is confusing. I don't think Omega is a non-regulated LDC. I thought Fort Leornard 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.

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.

-----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

EXHIBIT
4

-----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 will 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 weather 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 from 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