

Exhibit No: _____
Issues: Transaction and Proposed Conditions
Witness: Robert J. Hack
Sponsoring Party: Southern Union Company
Case No: GM-2013-0254
Date Testimony Prepared: January 14, 2013

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

GM-2013-0254

DIRECT TESTIMONY OF

ROBERT J. HACK

Jefferson City, Missouri

January 14, 2013

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Q: Would you please state your name and business address.

A: My name is Robert J. Hack and my business address is 3420 Broadway, Kansas City, Missouri 64111.

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

A: I am the Vice President - Chief Operating Officer of Missouri Gas Energy (“MGE”), a division of Southern Union Company (“SUG”). Since late 2006, I have also had executive oversight responsibilities for New England Gas Company, which is also a division of SUG.

Q: Please describe your educational background.

A: I graduated from Southern Methodist University with a Bachelor of Arts in English Literature and from the University of Kansas School of Law with a law degree.

Q: Please describe your professional background.

A: I have been in my present position since January of 2006. Prior to being named Chief Operating Officer of MGE, I served as MGE’s Vice President of Pricing and Regulatory Affairs beginning in October of 1998. I joined MGE in September of 1996 as a Senior Attorney.

1 Prior to my employment with MGE, I worked in the General Counsel’s Office of the
2 Missouri Public Service Commission (“Commission”), beginning in February of 1989,
3 serving in various positions including Assistant General Counsel, Deputy General
4 Counsel and General Counsel. My employment with the Commission ceased in July,
5 1996.

6
7 Since 1989, my career has been focused on regulated public utilities generally and, since
8 1996, on MGE as a regulated natural gas local distribution company (“LDC”).

9
10 **Executive Summary**

11 **Q: What is the purpose of this testimony?**

12 A: The purpose of my testimony is to provide support for the Joint Application (“Joint
13 Application”) being contemporaneously filed herewith by SUG, The Laclede Group, Inc.
14 (“LG”), and Laclede Gas Company (“Laclede Gas”). The Joint Application seeks an
15 order authorizing SUG to take certain actions, the results of which will, among other
16 things, permit SUG to sell, transfer, and assign to Laclede Gas all of MGE’s liabilities,
17 assets, and operating approvals including those assets utilized in the provision of natural
18 gas service in its Missouri service areas, all as more detailed in that certain Purchase and
19 Sale Agreement (“PSA”) executed on December 14, 2012 (the “Transaction”).

20
21 In that regard, I will provide certain information about SUG, its MGE operations in the
22 State of Missouri and other information as is pertinent to the Transaction described in the
23 Joint Application. Among other things, I will provide an explanation as to why the

1 Transaction will not be detrimental to the public interest and, consequently, why it should
2 be approved by the Commission subject to conditions proposed in the Joint Application.

3
4 **SUG and MGE**

5 **Q: Please provide a description of SUG.**

6 A: SUG is a Delaware Corporation, in good standing in all respects, with its principal office
7 and place of business at 5051 Westheimer Road, Houston, Texas 77056. Generally, SUG
8 is engaged in the transportation, storage, gathering, processing and distribution of natural
9 gas. It operates one of the nation's largest natural gas pipeline systems with more than
10 20,000 miles of gathering and transportation pipelines and one of North America's
11 largest liquefied natural gas import terminals. SUG also serves over 550,000 industrial,
12 commercial and residential end-use customers through two LDCs in Missouri and
13 Massachusetts.

14
15 **Q: Please describe SUG's Missouri operations.**

16 A: Through its MGE operating division, SUG is a public utility engaged in the distribution
17 and sale of natural gas to the public and conducts such business in Missouri in those areas
18 of the state certificated to it by the Commission. MGE provides natural gas service to
19 approximately 500,000 customers in nearly 30 counties in the State of Missouri.

1 **Q: Is SUG regulated by the Commission?**

2 A: Yes. Given the nature of its operations, SUG is a “gas corporation” and a “public utility”
3 as those terms are defined in §386.020(18) and (43) RSMo 2000. Consequently, it is
4 subject to the supervision of the Commission as provided by law.

5
6 **Q: Is SUG authorized to do business in this state as a foreign corporation?**

7 A: Yes. Attached hereto as Schedule RJH-1 is a copy of SUG’s Certificate of Authority to
8 do business in this state as a foreign corporation.

9
10 **Q: Has SUG registered its fictitious name, MGE, with the Missouri Secretary of State?**

11 A: Yes. Attached hereto as Schedule RJH-2 is a copy of SUG’s Registration of Fictitious
12 Name as MGE.

13
14 **Q: Does SUG have any pending action or final unsatisfied judgments or decisions**
15 **against it from state or federal regulatory agencies or courts which involve customer**
16 **service or rates occurring within the three years immediately preceding the filing of**
17 **the Joint Application?**

18 A: No.

19
20 **Q: Does SUG have any overdue Commission annual reports or assessment fees?**

21 A: No.

22

23

1 **Description of the Proposed Transaction**

2 **Q: Would you please explain the nature of the Transaction which is the subject of the**
3 **Application in this case?**

4 A: The specifics of the Transaction and the principal agreements, including a description of
5 the acquisition premium and a general description of how MGE's operations fit into LG's
6 business, will be addressed by Laclede witnesses Suzanne Sitherwood, Mark Waltermire,
7 and Steven Lindsey. Generally, the Transaction and the PSA are described in the
8 testimony of Laclede witnesses Suzanne Sitherwood and Mark Waltermire.

9
10 **Q. What process did SUG use to identify a qualified purchaser of the MGE assets?**

11 A. In order to identify a qualified acquirer and obtain a fair, market-based price for the sale
12 of MGE and NEG, either as a package or as independent transactions, SUG engaged the
13 services of an experienced and independent financial advisor to conduct a competitive
14 bidding process. SUG initiated the competitive process in mid-2012, by contacting a
15 broad group of potentially interested business partners to solicit their interest in a
16 transaction involving the acquisition of MGE and NEG. Of that group, more than two
17 dozen companies submitted a non-binding indication of interest in September. Based on
18 these indications, management presentations were made to about a dozen companies,
19 including Laclede, and those companies were invited to conduct additional due diligence
20 during November, and to submit binding proposals in early December. This group was
21 narrowed, with Laclede emerging as the winning bidder just before the execution of the
22 PSA on December 14, 2012.

1 **Q: Will the proposed Transaction affect SUG’s status as a regulated gas corporation in**
2 **the State of Missouri?**

3 A: Yes. Because the assets comprising SUG’s Missouri Gas Energy business will be
4 transferred to Laclede Gas, SUG will no longer be a Missouri-regulated gas corporation
5 after the Transaction is completed.

6
7 **Q: Why have SUG, LG, and Laclede Gas filed the Joint Application?**

8 A: As noted above, the Transaction involves the sale of SUG’s MGE assets to Laclede Gas
9 with MGE becoming a division of the Laclede Gas subsidiary of LG. Missouri law
10 (§393.190.1 RSMo) requires that a sale of the works or system of a gas corporation must
11 be authorized by the Commission. The Joint Application has been filed to comply with
12 this requirement.

13
14 **Q: Has the Agreement been approved by the Board of Directors of SUG?**

15 A: Yes. A copy of the resolutions of the Board of Directors of SUG approving the
16 Agreement and the Transaction and authorizing the execution of the Agreement is
17 attached hereto as Schedule RJH-3.

18
19 **Q: What is your understanding of the issue that is presented for the Commission’s**
20 **determination concerning the Transaction as described in and presented by the**
21 **Joint Application?**

22 A: It is my understanding that the Commission must make a determination of whether the
23 Transaction is detrimental to the public interest. Specifically, it is my understanding that

1 the Commission must approve the Joint Application unless it finds there is a net
2 detrimental effect on the public interest.

3
4 **The Transaction is Not Detrimental to the Public Interest**

5 **Q: Is the proposed Transaction detrimental to the public interest?**

6 A: No. The Transaction will have no adverse effect on the customers of MGE with respect
7 to rates, service or otherwise. MGE customers will see no change in their day-to-day
8 utility service or rates and they will continue to be served safely, effectively and
9 efficiently without interruption. All natural gas commodity, transportation and storage
10 costs that are proposed to be passed on to MGE's customers will continue to be subject to
11 review by the Commission through the purchase gas adjustment/actual cost adjustment
12 process included in MGE's tariffs. All non-gas costs proposed to be passed on to MGE's
13 customers will also continue to be subject to the Commission's review. The day-to-day
14 operations of MGE in Missouri will continue as they have in the past.

15
16 **Q: Does MGE presently have a rate case on file?**

17 A: No, however, MGE is constantly reviewing its financial performance to ensure that its
18 revenues keep pace with operational cost increases that are occurring. In that regard, a
19 rate case is likely to occur no later than mid-September of 2013.

20
21 **Q: Is that case filing being considered as a consequence of the Transaction?**

22 A. No, the driver of the rate case is the requirement under law that MGE file a general rate
23 case no less frequently than every three years to permit it to continue utilizing its

1 infrastructure system replacement surcharge. Moreover, Laclede Gas has committed that
2 retail distribution rates for MGE ratepayers will not increase as a result of the Transaction

3
4 **Q: You mentioned previously that the MGE assets and business will become a division**
5 **of Laclede Gas. Will that relationship have any adverse impact on the availability**
6 **and cost of capital to MGE?**

7 A: No. As of December 31, 2012, SUG's debt was rated BBB- by Fitch Ratings, Baa3 by
8 Moody's Investor Services and BBB- by Standard & Poors. Laclede Gas has expressed
9 its commitment to maintain its investment grade credit rating. Laclede witness Mark
10 Waltermire has filed direct testimony addressing the steps it plans to take to fulfill this
11 commitment.

12
13 **Q: Will the Transaction have any impact on the tax revenues of the political**
14 **subdivisions in which any of the structures, facilities or equipment of MGE is**
15 **located?**

16 A: No. Although SUG will no longer be the owner of MGE's LDC network and properties
17 after the close of the Transaction, all of MGE's structures, facilities and equipment will
18 remain in place upon closing.

19
20 **Q: Will the Transaction have any effect on the Commission's authority to regulate**
21 **MGE's operations?**

22 A: No. The Commission's jurisdiction over MGE will not be reduced. The Commission
23 will retain full regulatory supervision of MGE after the Transaction is completed. In fact,

1 as described in the Joint Application, the Commission will have greater authority over the
2 capitalization of MGE because Laclede Gas is a Missouri corporation subject to the
3 requirements of Section 393.200 RSMO, while SUG, as a foreign corporation, is not. In
4 addition, the Transaction will not restrict the Commission's access to MGE and Laclede
5 Gas' books and records as is reasonably necessary to carry out the Commission's
6 responsibilities with respect to MGE's operations, including proper audits.

7
8 **Q: Will an order approving the Joint Application affect the ratemaking treatment to be**
9 **given the Transaction in MGE's next rate case?**

10 A: No, the Commission's approval of the Joint Application will not constitute a finding by
11 the Commission of the value of the Transaction for ratemaking purposes. Accordingly, I
12 understand that Laclede Gas has no objection to the Commission reserving the right to
13 consider the ratemaking treatment afforded the Transaction including the effects on cost
14 of capital at a later time in any appropriate proceeding. Laclede Gas has committed that
15 it will not recommend an increase to the cost of capital for MGE as a result of the
16 Transaction.

17
18 **Q: Are there any other steps the Commission can take to ensure that the Transaction as**
19 **proposed by the applicants has no detrimental impact on MGE's customers?**

20 A: Although it is my view the Transaction is not detrimental to the public interest for the
21 reasons I just stated, as described in the Joint Application and outlined in a document
22 attached to Laclede witness Mark Waltermire's testimony marked as Schedule MDW-1
23 (and which has been included with the Joint Application as Appendix 3), Laclede Gas is

1 prepared to agree to extensive additional conditions. The conditions set forth in
2 Appendix 3 include certain customer service performance measures, customer service
3 operating procedures, structural and financial assurances and accounting, operational, and
4 recordkeeping commitments, the purpose of which are to provide additional assurances to
5 the Commission that the Transaction will not have any detrimental effect on MGE's
6 customers.

7
8 **Q: What is the source of the conditions that are being proposed by Laclede Gas?**

9 A: Generally, the proposed conditions set forth in Appendix 3 are drawn from conditions
10 previously agreed to by SUG and approved and adopted by the Commission in the
11 context of number of Commission cases, including as recently as February 2012 in the
12 Commission's approval of the SUG/Energy Transfer merger. Specifically, the cases I
13 refer to are Case Nos. GM-2000-43, GM-2000-500, GM-2000-502, GM-2000-503, GM-
14 2003-0238, GO-2005-0019 and GM-2011-0412.

15
16 **Q: Would you please comment on the elements of Appendix 3 as it relates to your
17 experience with MGE?**

18 A: Yes. Section 1 addresses customer service considerations including customer service
19 performance measures, MGE response to customer service measures, customer
20 complaints/inquiries to the Missouri Public Service Commission Staff and customer
21 service operating procedures. MGE currently tracks these customer performance
22 measures and complies with these procedures and reporting obligations as a routine
23 operational matter.

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Q: Laclede Gas has proposed certain business operating conditions under Sections 2 and 3 of Appendix 3. Are these new matters?

A: Only in the sense that the conditions address MGE’s relationship with Laclede Gas. The general framework has been carried over from that put in place in the context of Case No. GM-2003-0238 when SUG acquired its ownership interest in Panhandle Eastern Pipe Line Company (“Panhandle”). It has been modified somewhat to reflect the fact that SUG is not the acquiring entity but the selling entity. As such, certain features of the Panhandle Stipulation and Agreement, such as the prohibition on providing cash to the acquired entity, are not appropriate in the context of this Transaction.

Q. Please discuss Sections 2 and 3 of Appendix 3 to the Joint Application and explain how those conditions will insulate MGE from LG’s business.

A. Section 2.A. requires that MGE will be owned in a separate subsidiary of LG unless otherwise approved by the Commission. This provides assurance that MGE’s business will be structurally separate from LG’s business unless otherwise approved by the Commission. Because MGE will become a division of Laclede Gas which will, in turn, remain a separate subsidiary of LG, the contemplated structure following the acquisition should effectively satisfy this condition.

Section 2.B. prohibits Laclede Gas from transferring to LG (or any subsidiary thereof) assets necessary and useful in providing service to MGE’s Missouri customers without Commission approval. This provides assurance that assets necessary and useful in

1 providing service to MGE's Missouri customers will not be transferred to LG or any LG
2 subsidiary without Commission approval.

3
4 Section 2.C. obligates Laclede Gas to use its best efforts to insulate MGE from any
5 adverse consequences from its other operations or the activities of any of its affiliates.
6 This provides assurance that Laclede Gas will have an ongoing duty to insulate MGE
7 from adverse consequences from LG's other operations or those of its affiliates.

8
9 Section 2.D. requires LG to certify compliance with the provisions of Section 2 on a
10 quarterly basis. This provides assurance that LG is regularly reviewing these
11 commitments and assessing compliance therewith.

12
13 Section 3.A. requires Laclede Gas to ensure that the Transaction will have no adverse
14 effect on MGE's budget and funds to meet MGE's capital needs, including but not
15 limited to service line and main replacement programs, and affirms Laclede Gas'
16 commitment to MGE's current safety line replacement program as approved by the
17 Commission in Case No. GO-2002-0050. This provides assurance that MGE's capital
18 needs, including but not limited to those devoted to compliance with its ongoing safety
19 line replacement program, will not be adversely affected by the Transaction.

20
21 Section 3.B. requires Laclede Gas to:

- 1 • treat the acquisition premium paid for it in this Transaction “below the line” for
2 ratemaking purposes in Missouri and it shall not be recovered in retail distribution
3 rates from MGE customers;

- 4 • not seek rate recovery or recognition of any acquisition premium (including
5 transaction costs) in connection with this Transaction through an acquisition
6 savings adjustment (or a similar adjustment) in any future general rate proceeding
7 in Missouri.

8 This provides assurance that the Commission’s historical practice of disallowing rate
9 recovery of acquisition premiums will be followed with respect to this Transaction.

10
11 Section 3.C. provides that joint and common costs allocated to MGE for purposes of
12 setting retail distribution rates will not increase as a result of the Transaction above the
13 levels authorized by the Commission in MGE’s most recent general rate proceeding
14 (Case No. GR-2009-0355). This provides assurance that corporate support costs
15 allocated to MGE for ratemaking purposes will not increase as a result of this
16 Transaction.

17
18 Section 3.D. provides for the retention of certain documentation pertaining to the
19 Transaction. This provides assurance that certain data needed to evaluate the impact of
20 the Transaction on MGE will be available.

21

1 Section 3.E. requires segregation and separate recording of all acquisition costs related to
2 the Transaction. This provides assurance that certain data needed to evaluate the impact
3 of the Transaction on MGE will be available.

4
5 Section 3.F. requires maintenance of records listing its employees whose costs are
6 allocable to Missouri jurisdictional operations, and the amount and type of work
7 performed in connection with the Transaction. This provides assurance that certain data
8 needed to evaluate the impact of the Transaction will be available.

9
10 Section 3.G. requires the filing of verified journal entries reflecting the recording of the
11 Transaction on Laclede Gas' books and records within forty-five days of closing. This
12 provides assurance that the Commission will know that the closing has occurred and how
13 that closing has been reflected on Laclede Gas' books.

14
15 Section 3.H. precludes Laclede Gas from recommending an increase to the cost of capital
16 for MGE as a result of this Transaction. This provides assurance that the cost of capital
17 used for establishing MGE's retail distribution rates in Missouri will not increase as a
18 result of this Transaction.

19
20 Section 3.I. requires Laclede Gas to provide information related to the impact of the
21 Transaction on its structure, organization and costs. This provides assurance that
22 information related to the impact of the Transaction on corporate administrative and
23 general allocations to MGE will be available.

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Q: Please explain Section 4 of Appendix 3.

A: This provision addresses certain rules to govern the relationship of MGE and the services it takes from interstate and intrastate natural gas transportation pipelines. This provision, too, is already in place as a result of the Commission’s approval of the Stipulation and Agreement in Case No. GM-2003-0238. A couple of specific items in that agreement should be noted, however. In that Agreement, MGE agreed, for purposes of calculating its purchase gas adjustment and actual cost adjustment rates, to maintain at least the same percentage discount it was receiving from Panhandle in 2003. Because approval and closing of this Transaction will end the affiliation of MGE and Panhandle, the condition requiring imputation of discounts that do not exist will, upon closing of the Transaction, no longer be reasonable, necessary or appropriate. Similarly, that agreement had a number of other provisions driven by MGE’s affiliation with Panhandle that no longer apply in light of that absence of any affiliation between MGE and Panhandle. Those provisions too have been removed.

Q: Do you have any observations about Sections 5 through 9 of Appendix 3?

A: These matters provide additional commitments and assurances to support a finding by the Commission that the proposed Transaction will not be detrimental to the public interest.

Q: Please explain Section 10 of Appendix 3.

1 A: Section 10 (Commitments are Missouri Jurisdictional) is intended to limit the obligations
2 and commitments set forth in Schedule MDW-1 to Missouri jurisdictional regulatory
3 activities.

4

5 **Concluding Observations**

6 **Q: Should the Commission approve the Joint Application filed by SUG, LG, and**
7 **Laclede Gas?**

8 A: Yes. The Transaction as embodied by the PSA will have no detrimental impact on MGE
9 customers. As noted above, the Transaction will have no impact on customer rates or
10 service and customers will continue to be served effectively and efficiently after closing.
11 The Transaction will be entirely transparent to them. There will be no impact on the tax
12 revenues of the counties in which MGE currently has operations and the Commission's
13 jurisdiction over MGE's operations will not change. Additionally, Laclede Gas has
14 proposed an extensive list of additional reporting requirements and financial,
15 recordkeeping and operational commitments that will further protect MGE customers.

16

17 **Q: Does this complete your direct testimony?**

18 A: Yes.

19

20

21

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23