

Staff of the Missouri Public Service Commission,

Complainant,

v.

Missouri Pipeline Company, LLC, Missouri Gas Company, LLC, Omega Pipeline, LLC, Mogas Energy, LLC, United Pipeline Systems, Inc., and Gateway Pipeline Company, LLC

Respondents.

2. Staff is filing the redacted and HC versions as *substitute* testimony since none of the information in the testimony has been changed, it has simply been classified as either HC or public. Staff is indicating on the cover sheet that the date prepared remains as originally filed.

3. Additionally, the Staff is not filing amended affidavits, even though the total number of pages may change due to the document being redacted, because none of the text of the originally filed documents has changed.

4. The depositions which have also been marked for redaction by Respondents will also be filed as *substitute* attachments to testimony. Due to the volume of material, Staff will file these documents as soon as Staff is able to complete the redactions.

5. If the Commission needs assistance from Staff as a result of these substitutions, please let me know.

Respectfully submitted,

/s/ Lera L. Shemwell

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronic mail to all counsel of record on this 8th day of December, 2006.

/s/ Lera L. Shemwell

Exhibit No.:
Issues: *Transportation Tariffs*
Witness: *Robert E. Schallenberg*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *GC-2006-0491*
Date Testimony Prepared: *November 17, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

ROBERT E. SCHALLENBERG

MISSOURI PIPELINE COMPANY

CASE NO. GC-2006-0491

Jefferson City, Missouri
November 2006

****Denotes Highly Confidential Information****

NP

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

Staff of the Missouri Public Service Commission,)
Complainant, v. Missouri Pipeline Company, LLC) Case No. GC-2006-0491
and Missouri Gas Company, LLC, Respondents.)

AFFIDAVIT OF ROBERT E. SCHALLENBERG

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Robert E. Schallenberg of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 18 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Robert E. Schallenberg
Robert E. Schallenberg

Subscribed and sworn to before me this 7th day of November 2006

Ashley M. Harrison
Notary Public



ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06888978

1 **SURREBUTTAL TESTIMONY**
2 **OF**
3 **ROBERT E. SCHALLENBERG**
4 **MISSOURI PIPELINE COMPANY**
5 **CASE NO. GC-2006-0491**

6 Q. Please state your name and business address.

7 A. Robert E. Schallenberg, 200 Madison Street, Jefferson City, Missouri, 65101.

8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Missouri Public Service Commission Staff as Director
10 of the Utility Services Division.

11 Q. Are you the same Robert E. Schallenberg who filed direct testimony in this
12 case on September 6, 2006?

13 A. Yes.

14 Q. What is the purpose of your surrebuttal testimony?

15 A. The purpose of this testimony is to respond to the rebuttal testimony of
16 Respondents' witnesses David Ries, Christopher Johns, and Clark Smith regarding matters
17 Staff raised in direct testimony pre-filed in this case. Staff is no longer pursuing relief on
18 Count Six of the complaint in this case. Staff is no longer pursuing this count at this time, not
19 because Staff believes relief is unwarranted, but solely due to Staff's decision its resources are
20 better employed in pursuing matters pertaining to the operation of Missouri Pipeline
21 Company (MPC) and Missouri Gas Company (MGC) that will have greater impacts on
22 others. Staff's focus is on MPC's and MGC's tariff violations due to the interactions between

1 MPC and MGC and its affiliate Omega Pipeline Company (Omega) that greater impact on the
2 shippers and ultimate customers serve from this pipeline.

3 The decisions and actions of David J. Ries, an officer (President) of MPC, MGC,
4 Omega, and Missouri Interstate Gas (MIG), are the sources of each of the counts of this
5 complaint.

6 **EXECUTIVE SUMMARY**

7 Q. Would you briefly summarize your surrebuttal testimony?

8 A. Yes. Despite the testimony of Respondents' witnesses to the contrary, while
9 MPC/MGC's affiliate Omega paid the highest rates to MPC and MGC for service to
10 Fort Leonard Wood at certain time periods, the Respondent testimony fails to note that
11 Omega pays some of the lowest rates for pipeline delivery to points used by non-affiliated
12 shippers as well. Under the Commission's tariffs, MPC and MGC are not authorized to
13 charge non-affiliated customers more than the lowest rate charged to an affiliate.

14 For the purpose of benefiting the ultimate owners of MPC, MGC and Omega, Omega,
15 with assistance from MPC and MGC, operated outside the scope of the authority granted to it
16 by the City of Cuba by the agency agreement between Omega. These actions resulted in the
17 City of Cuba being over charged for natural gas service under the terms of their agreement
18 with Omega. The over charges were the direct result of MPC and MGC failure to enforce
19 their tariff provisions by allowing Omega to deliver gas to Cuba in excess of amounts allowed
20 by tariff that Omega had not purchased. MPC and MGC actions also resulted incorrect
21 financial statements that failed to show the imbalance penalties due the pipelines as well as an
22 overstatement of the financial results of Omega.

1 ***Omega did not pay the highest rates on MPC and MGC relative to the***
2 ***actual transportation services provided to non-affiliate customers on these***
3 ***pipelines.***

4 Q. Do Respondents claim Omega paid the highest rates to MPC and MGC?

5 A. Yes. Both Respondents' witnesses Mr. David Ries and Mr. Christopher Johns
6 make that claim in their rebuttal testimonies, as illustrated in Attachments N, O, P, and Q
7 mentioned in their testimonies.

8 Q. Do you agree with the information represented on Attachments N, O, P,
9 and Q?

10 A. No. These attachments are based on a comparison of different types of
11 contracts that vary in their terms and conditions. Further, these attachments are based on a
12 criterion that differs from that specified by the Respondents' Missouri tariffs on file with this
13 Commission. These attachments are based on a comparison of alleged contract terms of
14 transportation agreements. Both MPC and MGC's tariffs on file with this Commission state
15 that the criterion for determining the maximum rate that can be charged to a non-affiliated
16 shipper is the following: "the lowest transportation rate charged to an affiliate shall be the
17 maximum rate that can be charged to non-affiliates." The "lowest transportation rate charged
18 to an affiliate" is the criterion for the maximum rate that can be charged to non-affiliates, not
19 the alleged terms in transportation contracts. Staff is relying on invoices it obtained from
20 MPC and MGC for its assertion that MPC and MGC are violating their tariffs in this respect.

21 In particular, Appendices N and O compare firm transportation service and rates to
22 interruptible transportation service and rates. Such a comparison is meaningless in this
23 context of Staff assertions in this complaint. This is because firm transportation service is

1 distinct from interruptible transportation service. The difference is reliability. As Mr. Ries
2 noted in his deposition ** _____

3 _____
4 _____ ** Both MPC's and MGC's tariffs have different
5 sections for the rates and service requirements for firm transportation service and for
6 interruptible transportation service. Further, ** _____ **
7 have interruptible contracts separate from and in addition to firm contracts. These two
8 appendices do not reflect these differences nor do they show the rate Omega is being charged
9 for interruptible service by MPC. Moreover, this appendices do not compare MPC's rates
10 charged to Omega versus the rates MPC charged to ** _____

11 _____ ** Each of these
12 customers also received interruptible service from MPC during the period covered by these
13 appendices.

14 Appendices N and O do not include all the firm transportation shippers using MPC's
15 pipeline during this period. These appendices do not address all of the time period covered by
16 Staff's complaint. The relationships of shippers' rates on any given pipeline change over time
17 as they gain or lose price concessions.

18 Appendix Q contains the same issues as those noted above for Appendices N and O.
19 Like Appendices N, O and Q, Appendix P has the same issues, except Appendix Q includes a
20 graph that does not compare firm transportation rates to interruptible rates, as is done in the
21 other three appendices.

22 Appendices Q and P include an issue not found in Appendices N and O. They include
23 a comparison of rates for MGC shippers in two different rate zones - Fort Leonard Wood and

1 outside Fort Leonard Wood. Without adjustment for service provided to an affiliate, the
2 maximum reservation charge for firm delivery to Fort Leonard Wood is higher, than it is for
3 delivery to any other point on the MPC and MGC system. Omega currently supplies the
4 natural gas to Fort Leonard Wood. Omega pays a lower rate to MGC for delivery to the Fort
5 than the prior non-affiliated gas supplier, ONEOK Marketing (ONEOK).

6 Omega pays no reservation charges for firm transportation service to delivery points
7 other than Fort Leonard Wood. The Omega contract with MGC ties the amount of firm
8 reservation capacity billed under this contract to Fort Leonard Wood. The MGC contract
9 states:

10 Shipper shall have the right to reset the MDQ under this agreement
11 during the third quarter of each calendar year resulting from changing
12 demand on the FLW installation. Requests for increases in capacity are
13 subject to available capacity at the time of the request.

14 MDQ means Maximum Daily Quantity and FLW stands for Fort Leonard Wood. Staff
15 has traced the amount of firm capacity billed under this contract to Omega bills to Fort
16 Leonard Wood, albeit MGC may delay billing Omega for an increase in the Fort's firm
17 reservation quantity for a few months after Omega begins to receive higher payments from
18 the Fort.

19 Omega has a firm transportation service customer. ** _____

20 _____

21 _____

22 _____ ** MPC and MGC had billed

23 ** _____ ** maximum firm and interruptible tariff rates for the period beginning at
24 least in 2004, without making an adjustment for transportation service provided to an affiliate.

25 The time period ** _____ ** paid these higher rates likely started at an earlier date

1 under Gateway ownership of MPC and MGC. During this period, ** _____ ** was
2 using a non-affiliated agent. ** _____ ** was receiving discounted transportation
3 service from MGC at the time Gateway assumed ownership of MGC.

4 Q. Do Appendices N, O, P and Q address all of the customers of MPC and MGC?

5 A. No. Appendices N, O, and Q note that they are limited to the period February,
6 2005 through March 2006. These appendices omit ** _____
7 _____ ** which had transportation service contracts with a non-affiliated agent during a
8 portion of this period. ** _____ ** had both firm and interruptible transportation
9 service contracts with both MPC and MGC. MPC and MGC were both charging
10 ** _____ ** different rates for firm and interruptible transportation service during
11 this period. The MPC and MGC charges to ** _____ ** are shown on the bills that
12 were sent to their respective natural gas suppliers. ONEOK and Omega provided natural gas
13 to ** _____ ** during this period. MPC and MGC charged different rates to
14 ONEOK for firm and interruptible transportation service than MPC or MGC charged Omega
15 for delivery service to the Owensville city gate on ** _____ ** behalf. The
16 difference in the rates charged to Omega did not occur immediately but were reduced over
17 time.

18 Q. Why do you believe MPC and MGC charged ONEOK higher rates for
19 transportation service than they charged to Omega for transportation service to serve the same
20 customer?

21 A. I believe the cause in the rate differential is the affiliation between Omega with
22 MPC and MGC. The rate differential charged to non affiliates versus is best illustrated in a
23 comparison of recreated invoices sent to ONEOK versus the recreated invoices sent to

1 Omega. ONEOK was a competitor of Omega once Omega decide to expand its operations
2 into natural gas marketing activities.

3 Appendix A attached to this testimony is a copy of recreated invoices received from
4 the Respondents showing MPC and MGC's billings to ONOEK for firm natural gas deliveries
5 to Fort Leonard for the period January 2004 through January 2005. Appendix A represents all
6 the invoices MPC and MGC provided the Staff for the period that ONEOK supplied natural
7 service to Fort Leonard Wood.

8 Appendix B attached to this testimony is a copy of recreated invoices received from
9 the Respondents showing MPC and MGC's billings to ONOEK for firm and interruptible
10 natural gas deliveries to the Owensville city gate on behalf of Emhart for the period January
11 2004 through November, 2004. Appendix B represents all the invoices MPC and MGC
12 provided the Staff for the period that ONEOK supplied natural service to the Owensville city
13 gate on behalf of Emhart Glass.

14 Appendix C attached to this testimony is a copy of recreated invoices received from
15 the Respondents showing MPC and MGC's billings to Omega for firm and interruptible
16 natural gas deliveries to the Owensville city gate on behalf of Emhart Glass for the period
17 December 2004 through March, 2005. The February and March invoices are for the year
18 2005 despite the fact that through the recreation process the invoices show 2004 on the
19 invoice face sheet. The fact that these two invoices are for February and March 2005 time
20 period can be determined by the Daily Gas Control/Contract Balance Report immediately
21 following the invoice face sheet.

22 Appendix D attached to this testimony is a copy of recreated invoices received from
23 the Respondents showing MPC and MGC's billings to Omega for the period February 2005

1 through March 2006. These recreated invoices show MPC and MGC billings to Omega for
2 natural gas deliveries to Fort Leonard Wood. These documents also show the rates MPC and
3 MGC charged Omega for transportation services related to other delivery locations including
4 Owensville on behalf of ** _____ **.

5 Appendix E to this testimony is a copy of recreated invoices received from the
6 Respondents showing MPC and MGC's billings to Omega for the period January 2004
7 through March 2006 for transportation service for deliveries to satisfy Omega's obligations to
8 supply natural gas to the City of Cuba, G-P Gypsum, and Willard Asphalt. The invoices only
9 cover transportation deliveries to Willard Asphalt for the period June 2004 through
10 January 31, 2005.

11 Appendix F to this testimony is a copy of invoices sent by MPC and MGC to Omega's
12 address for the period June, 2006 through August, 2006 for transportation service during that
13 period. These invoices update rates charged to Omega for a period subsequent the period
14 covered by the invoices contained in my Appendices D and E.

15 The information in these appendices show MPC and MGC charged Omega lower rates
16 for the same transportation service to the same location on their pipelines than they charged
17 non-affiliated shippers. The invoices in my Appendices A and B show MPC and MGC
18 charged ONOEK maximum tariff rates for natural gas delivery to Fort Leonard Wood and the
19 Owensville city gate for deliveries on behalf of Emhart Glass. The invoices in my Appendix
20 D show that MGC immediately provided Omega a discounted rate to serve Fort Leonard
21 Wood, and that MPC and MGC provided a discounted rate to Omega for deliveries destined
22 to Emhart Glass after the invoice period covered in my Appendix C. My Appendix F shows

1 that MPC and MGC provided Omega further reductions in their transportation service from
2 the rates they charged to Omega during the period covered in my Appendix C.

3 Q. What is the significance of Appendix E?

4 A. These invoices represent the rates MPC and MGC charged Omega for
5 transportation services on contracts Mr. Ries assigned to the City of Cuba. The City of Cuba
6 was the initial customer Omega gained in its expansion into gas marketing from its local
7 distribution company at Fort Leonard Wood. Omega also used these firm transportation
8 contracts with the City of Cuba to provide interruptible service to an end-user, G-P Gypsum.
9 Staff became aware that G-P Gypsum (GP) was an interruptible customer when G-P
10 forwarded to the Staff e-mails from Mr. Ries directing G-P to switch to propane thus
11 interrupting G-P's natural gas service. This action shows that G-P was an interruptible
12 customer as provided for under the Omega contract with GP, but not a firm customer under
13 the firm transportation contracts with the City of Cuba.

14 To the Staff's knowledge the City of Cuba never authorized Omega to operate outside
15 its contracts, except as those contracts allowed. Mr. Ries' use of the City of Cuba
16 transportation agreements to supply natural gas to G-P allowed Omega to receive interruptible
17 service at the discounted commodity rates shown on the invoices in Appendix E. Omega
18 expanded its use of the City of Cuba's discounted commodity rates for interruptible customers
19 from G-P to include Willard Asphalt. By doing so Omega obtained a significant discount for
20 interruptible transportation on both MPC and MGC's pipelines. By claiming the service was
21 for the City of Cuba, Mr. Ries was able to conceal the discounted interruptible service being
22 charged to Omega while certain other non-affiliated shippers paid full maximum tariff rates
23 for interruptible service before any adjustment for transportation service provided to affiliates.

1 Q. Did Staff find documents that support that MPC and MGC executed contracts
2 for certain deliveries made on behalf of their affiliated marketing company, Omega?

3 A. No. On the contrary, the documents Staff has obtained show that gas was
4 delivered on Omega's behalf in certain instances without a specific contract. MPC and MGC
5 supplied Staff recreated customer invoices for the period January 2004 through March 2006.
6 Attached to each recreated invoice face sheet is a Daily Gas Control/Contract Balance Report.
7 This report shows daily receipt nominations in relation to daily deliveries made on their
8 behalf under the MPC and MGC transportation contracts effective at the time. These reports
9 show how much gas MPC received daily on behalf of each shipper and the amount of gas
10 delivered on the shipper's behalf, by specific delivery point. In all cases, other than Omega,
11 these reports identify a specific contract number for each set of receipts and deliveries. On
12 the recreated Omega invoices, deliveries made to the Willard Interconnection never show a
13 contract number. Omega invoices failed to identify the related contract for deliveries made to
14 the Owensville city gate for ultimate deliveries to Emhart Glass beginning January, 2006.

15 Q. Did Staff obtain any other documentation regarding the rates MPC and MGC
16 charged to non-affiliate shippers?

17 A. Yes. Staff received from MPC and MGC recreated invoices for the period
18 January 2004 through March 2006. The following appendices contain the copies of this
19 material for the other non-affiliated shippers not contained in my prior appendices.

20 Appendix G to this testimony is a copy of recreated invoices received from MPC and
21 MGC for their billings to Laclede Gas Company (Laclede) for natural gas deliveries to
22 Laclede's city gate locations during the period January 2004 through March 2006.

1 Appendix H to this testimony is a copy of recreated invoices received from MPC and
2 MGC for their billings to both AmerenUE and Aquila for natural gas deliveries to
3 AmerenUE's Wentzville locations and to the Salem, Owensville, and Rolla city gates during
4 the period January 2004 through March 2006.

5 Appendix I to this testimony is a copy of recreated invoices received from MPC and
6 MGC for their billings to Proliance, as agent for Fidelity Energy, Inc., for natural gas
7 deliveries to the Sullivan city gate during the period January 2004 through March 2006.
8 During this period, Laclede acquired the interests of Fidelity Energy, Inc.

9 Appendix J to this testimony is a copy of recreated invoices received from MPC and
10 MGC for their billings to ONEOK, as agent for the City of St. James, for natural gas
11 deliveries to the St. James' city gate during the period January 2004 to March 2006.

12 Appendix K to this testimony is a copy of recreated invoices received from MPC and
13 MGC for their billings to ONOEK, as agent for the City of St. Roberts, for natural gas
14 deliveries to the St. Roberts city gate during the period January 2004 to March 2006.

15 Appendix L to this testimony is a copy of recreated invoices received from MPC and
16 MGC for their billings to ONOEK, as agent for the City of Waynesville, for natural gas
17 deliveries to the Waynesville city gate during the period January 2004 through March 2006.

18 Appendix M to this testimony is a copy of recreated invoices received from MPC and
19 MGC for their billings to Royal Canin, USA, Inc. for natural gas deliveries to the Rolla city
20 gate during the period January 2004 through March 2006.

21 Appendix N to this testimony is a copy of recreated invoices received from MPC and
22 MGC for their billings to Phelps County Regional Medical Center (Phelps) for natural gas
23 deliveries to the Rolla city gate during the period January 2004 through March 2006.

1 Appendix O to this testimony is a copy of recreated invoices received from MPC and
2 MGC for their billings to Busy Bee Laundry for natural gas deliveries to the Rolla city gate
3 during the period January 2004 through March 2006.

4 Appendix P to this testimony is a copy of recreated invoices received from MPC and
5 MGC for their billings to The University of Missouri-Rolla for natural gas deliveries to the
6 Rolla city gate during the period January 2004 through March 2006.

7 Q. How are the foregoing appendices related to the rebuttal testimony of MPC
8 and MGC's witnesses in this case?

9 A. These appendices, particularly Appendices A through F, show that MPC and
10 MGC 1) provided Omega exclusive preferential treatment by providing only Omega gas
11 transportation without a transportation contract, 2) charged Omega lower rates than the rates
12 charged non-affiliate shippers, and 3) allowed only Omega to not nominate gas for receipt
13 into the pipeline equivalent of its delivery requirements. These appendices, in conjunction
14 with MPC and MGC's access to confidential pipeline information, demonstrate MPC and
15 MGC provided Omega three significant advantages over the competition while Omega
16 engaged in marketing activities. First, Omega had knowledge regarding the gas supply
17 situation throughout the pipeline market area which no other shipper or competitor possessed.
18 Two, Omega could deliver a significant amount of gas to its customers without having to buy
19 the gas for receipt into the pipeline through MPC and MGC's non-enforcement of the
20 imbalance penalty actions specified in their tariffs. Third, Omega enjoyed transportation rate
21 advantages since their president and marketer also controlled MPC and MGC. The Omega
22 president defined the terms and conditions that Omega would pay for transportation services.

1 Q. Are MPC and MGC witnesses Mr. Ries and Mr. John's assertions in their
2 rebuttal testimony that Omega paid the highest rates on MPC and MGC's pipelines true and
3 accurate?

4 A. No. Mr. Ries' statement, "Omega pays the highest transportation charges to
5 MPC/MGC of any customer." is not true for any of the time periods relevant to this
6 complaint, and it is not true for transportation service to delivery points other than Fort
7 Leonard Wood. Omega did not have an active transportation service contract with MPC and
8 MGC for the period January 1, 2003, through January 31, 2005. During this period, the
9 statement above is completely false. Omega paid some of the lowest rates to MGC for firm
10 and interruptible service during the period July 1, 2003, through January 31, 2005.

11 The assertion that Omega paid the highest rates to MPC and MGC is completely false
12 regarding all time periods relative to Staff's complaint in this case. The assertion is false
13 relative to the time period July 1, 2003, through January 31, 2005, and subsequent to June 30,
14 2006. The assertion is completely false regarding the provision of transportation service to
15 Omega for delivery to points other than Fort Leonard Wood. Omega has neither paid nor
16 been charged both maximum MPC and maximum MGC tariff rates, before any adjustment for
17 provision of transportation service to an affiliate. Omega's customers all have ultimate
18 delivery points on MGC, thereby requiring transportation service from both MPC and MGC.
19 Beginning at least on July 1, 2003, Omega has enjoyed some discount from the combined
20 maximum MPC and MGC firm and interruptible tariff rates. Other shippers have been
21 charged the combined maximum MPC and MGC firm and interruptible rates. The fact that
22 Omega is not charged the combined maximum MPC and MGC firm and interruptible rates

1 demonstrate that Omega was being charged less for transportation service than the paying this
2 maximum rates. This is a condition not allowed by the Respondent's tariffs.

3 Q. Have you prepared anything to illustrate the relationship between the rates for
4 firm and interruptible service MPC and MGC charged Omega in comparison to the rates MPC
5 and MGC charged non-affiliated shippers for the same service?

6 A. Yes. Appendix Q attached to this testimony is a graph that compares MPC
7 firm transportation rate charges to various customers on the MPC/MGC system. I attempted
8 to identify the shipper agent, ultimate delivery point on MGC, if applicable, and the date of
9 any rate modification. The graph shows the end-user customers separately from local
10 distribution company (LDC) customers to aid in the comparison. I used the 25% load factor
11 specified in both MPC and MGC's tariffs to arrive at the rates used in the comparisons. This
12 graph shows that Omega, under the Emhart Glass firm contract, enjoys the lowest rate for firm
13 transportation on the MPC system. Staff found no agency agreement for Omega's use of this
14 contract. Nonetheless Omega shipped gas on MPC's pipeline to Owensville using this
15 contract, at least until January 2006. Staff has found no valid notice canceling this contract at
16 this time. Staff was provided an undated letter canceling these contracts from an Emhart
17 representative. The termination notice was to be effective September 1, 2004, thereby
18 terminating these contracts by March 31, 2005. These contracts appear to be used by Omega
19 after this date to continue to serve Emhart. Staff understands that the cause for this
20 termination was the imbalance penalty being imposed on Emhart under its existing gas supply
21 arrangements. Emhart signed a natural gas supply agreement with Omega based on an offer
22 from Mr. Ries that Mr. Ries would eliminate Emhart's imbalance penalty charges if Emhart
23 would sign a natural gas supply agreement with Omega.

1 Appendix R attached to this testimony is a comparison of the MPC interruptible
2 transportation rates in a format similar to that of my Appendix Q. I did not use the 25% load
3 factor in creating this graph because the interruptible rate is based only on the quantity of gas.
4 This graph illustrates Omega's transportation rate advantage over its competitors in the
5 provision of interruptible transportation service.

6 Appendix S attached to this testimony is a comparison of MGC firm transportation
7 rate charges to various customers on the MGC system for delivery of gas to locations other
8 than Fort Leonard Wood. I have attempted to identify the shipper agent, date of rate
9 modification, as well as segmented end-user and LDC customers to assist in understanding
10 the comparison. I used the 25% load factor specified in the Company's tariffs to generate the
11 rates for the comparison. This chart shows that Omega, under the Emhart Glass firm contact,
12 again enjoys the lowest rate for firm transportation on MGC system.

13 Appendix T attached to this testimony is a comparison of MPC interruptible
14 transportation rates for delivery to points other than Fort Leonard Wood. I did not use the
15 25% load factor to create this graph, since the interruptible rate is based only on quantity of
16 gas delivered. This graph also illustrates Omega's transportation rate advantage over its
17 competitors in the provision of interruptible transportation service.

18 Appendix U attached to this testimony is a comparison of MGC firm transportation
19 rate charges to various customers on the MGC system for delivery of gas to Fort Leonard
20 Wood. This graph shows Omega was given a transportation rate reduction for service to Fort
21 Leonard Wood that was not provided the prior non-affiliated shipper, ONOEK.

22 **Omega, with the required assistance from MPC and MGC, operated**
23 **beyond the authority of the agency agreement between Omega and the City**

1 **of Cuba for the benefit of the ultimate owner(s) of MPC, MGC, and Omega,**
2 **and to the detriment of the MPC and MGC financial results and the City of**
3 **Cuba.**

4 Q. The Respondent rebuttal testimony notes that you inappropriately used the
5 Omega natural gas sales and agency contract with the City of Cuba to determine the
6 Respondent compliance with their tariffs. How do you respond to this assertion?

7 A. The Omega natural gas sales and agency contract with the City of Cuba is the
8 only document that the Respondents could provide to satisfy the notice requirements in the
9 City of Cuba's requirements in their transportation contract. Appendix V attached to my
10 testimony is the Respondent's responses regarding Staff requests for the City of Cuba
11 notification to MPC and MGC authorizing Omega to act as their agent as well as the scope of
12 their agent authority. Appendix V notes that the only written documentation provided is the
13 Omega natural gas sales and agency agreement with the City of Cuba.

14 Appendix W attached to my testimony is a copy of the City of Cuba contracts with
15 MPC and MGC used in the deposition of Mr. Ries. Appendix W shows that, UtiliCorp
16 Pipeline Systems, the then current owner of MPC and MGC, received a letter dated
17 February 5, 1999 from the Mayor of the City of Cuba notifying the pipelines that
18 AmerenEnergy was authorized to act as their agent. Also this Appendix shows that, UtiliCorp
19 Pipeline Systems received a letter dated June 21, 1999, from AmerenEnergy notifying the
20 pipelines that ProLiance Energy will be nominating on AmerenEnergy's behalf for the City of
21 Cuba's transportation agreements. On the other hand, the City of Cuba never notified MPC
22 and MGC that Omega was authorized to act as their agent, nominate gas on their behalf, or
23 receive their bills. Once Omega assumed control of the MPC and MGC billing process

1 related to transportation service to the City of Cuba, Omega prevented the City of Cuba from
2 knowing that Omega was using their capacity to serve its customers, G-P Gypsum and
3 Willard Asphalt and was billing the City of Cuba for gas that was not actually purchased.
4 Omega billing the City of Cuba for gas that was not purchase is in violation of terms of the
5 natural gas sales and agency agreement between Omega and the City of Cuba. Omega would
6 not have been in a position to overcharge the City of Cuba if MPC and MGC had properly
7 applied their tariffs.

8 Appendix W also shows that the discount arrangement that Mr. Ries implemented for
9 Omega was not authorized by the terms of the City of Cuba contracts with MPC and MGC.
10 These contracts specify that any such agreement needs to be signed by both parties.
11 Technically Omega should have been charged the MGC maximum tariff rates for firm
12 transportation such the prior discount agreement with the City of Cuba expired June 30, 2003.

13 In discussions with the current mayor and comptroller of the City of Cuba, the City
14 does not have the authority to alter their contracts without Board of Alderman approval.
15 Therefore there are no verbal agreements that supersede the City of Cuba's written contracts.
16 The City of Cuba contracts require written notice be provided to MPC and MGC to transfer
17 the administration of the City's contracts to Omega. MPC and MGC received no such notice.

18 Mr. Ries attributes a statement to Staff on page 20, lines 1 through 5, which is not true.
19 Staff does not:

20 . . . want to conclude that because Omega's had an agency and sales
21 agreement with Cuba and that therefore the ownership of the
22 preexisting contracts to transport gas held by Cuba on MPC/MGC
23 somehow (they do not say how) must be terminated and transportation
24 should be attributed to gas transported on behalf of Omega as an
25 affiliated transactions

1 Omega had no proper authority to use the City of Cuba's transportation contracts with
2 MPC and MGC. Omega used these contracts only because MPC and MGC allowed their use
3 outside the conditions contained in their tariffs and contracts. Omega was allowed to use these
4 contracts outside the parameters established in the Omega natural gas sales and agency
5 agreement with the City of Cuba.

6 Q. Does this conclude your testimony?

7 A. Yes.