Exhibit No.:	________________
Issue(s):	Waiver/Variance
Witness:	Barb Meisenheimer
Type of Exhibit:	Rebuttal
Sponsoring Party:	Public Counsel
Case Number:	GE-2011-0282
Date Testimony Prepared:	December 15, 2011

REBUTTAL TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of
the Office of the Public Counsel

MISSOURI GAS ENERGY

Case No. GE-2011-0282

December 15, 2011

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Southern Union Company d/b/a Missouri Gas Energy's Application for Waiver/Variance	)))	Case No. GE-2011-0282

AFFIDAVIT OF BARBARA A. MEISENHEIMER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

1. My name is Barbara A. Meisenheimer. I am Chief Utility Economist for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Barbara A. Meisenheimer

Barbara A. Meisenheimer

Subscribed and sworn to me this 15th day of December, 2011.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

KENDELLE R. SEIDNER
My Commission Expires
February 4, 2015
Cole County
Commission #11004782

Kendelle R. Seidner

Kendelle R. Seidner
Notary Public

My Commission expires February 4, 2015.

REBUTTAL TESTIMONY

OF

BARBARA A. MEISENHEIMER

MISSOURI GAS ENERGY

CASE NO. GE-2011-0282

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel (OPC or Public Counsel), P O Box 2230, Jefferson City, Missouri 65102.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I hold a Bachelor of Science degree in Mathematics from the University of Missouri-Columbia (UMC) and have completed the comprehensive exams for a Ph.D. in Economics from the same institution. My two fields of study were Quantitative Economics and Industrial Organization. My outside field of study was Statistics.

I have been with the Office of the Public Counsel since January 1996. Over the past 15 years I have also taught courses for the following institutions: University of Missouri-Columbia, William Woods University, and Lincoln

University. I currently teach undergraduate and graduate level economics courses for William Woods University.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE COMMISSION?

A. Yes, I have testified on numerous issues before the Missouri Public Service Commission (PSC or Commission). I have testified on economic issues and policy issues in the areas of telecommunications, gas, electric, water and sewer. In rate cases my testimony has addressed class cost of service, rate design, miscellaneous tariff issues, low-income and conservation programs and revenue requirement issues related to the development of class revenues, billing units, low-income program costs, incentive programs and fuel cost recovery.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The primary purpose of my rebuttal testimony is to respond to Missouri Gas Energy's (MGE's or Company's) request for waiver or variance of the transportation and storage related discount to PGA and ACA rates approved by the Commission as a component of the Stipulation and Agreement in Case No. GM-2003-0238 (Agreement).

Q. PLEASE DESCRIBE THE ISSUE BEFORE THE COMMISSION.

A. In this case MGE seeks a waiver or variance from its commitment to provide transportation and storage discounts as it agreed to do in the March 23, 2003, Stipulation and Agreement approved by the Commission in GM-2003-0238.

> MGE agrees, for purposes of calculating its purchase gas adjustment ("PGA") and actual cost adjustment ("ACA") rates, to maintain at least the same percentage of discount it is currently receiving on Panhandle and Southern Star Central for purposes of transportation and storage costs passed through the PGA clause to MGE's ratepayers as provided in Highly Confidential Appendix 2 hereto. This provision does not alter MGE's obligation to obtain the best terms for gas transportation that it can… This paragraph 6.A. shall apply for only so long as MGE is an affiliate of SUPC [Southern Union Panhandle Corporation] and Successor Entities.

This discount provision specifically requires MGE to apply the transportation and storage discount through the PGA so long as MGE is affiliated with Panhandle.

Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S POSITION ON MGE'S REQUEST FOR WAIVER OR VARIANCE.

A. Public Counsel strongly opposes MGE's attempt to benefit its current and future shareholders at the expense of Missouri ratepayers by asking the Commission to override a single element of the Commission approved Agreement. The discount provision was a key element insulating consumers from any possible adverse consequences associated with the transaction. The Agreement was the product of a fair negotiations process in which the outcome of all issues was at stake.

Although MGE argues that market conditions have changed, the terms of the Agreement envisioned that the market might change. As the record of the proceeding makes clear, MGE acknowledged that it would provide the discounts even if it was unable to negotiate discounts from the pipelines. In exchange for this and other concessions MGE obtained uncontested and expedited merger approval. MGE provided no credible evidence that consumers will be harmed by continuing to enforce the terms of the Agreement. The Agreement requires MGE to purchase transportation and storage services in a manner that minimizes the costs that flow through the PGA. This requirement together with the prudence review process for ACA adjustments is sufficient to protect consumers. Likewise, MGE has not claimed that the discount preservation mechanism jeopardizes its ability to provide safe and adequate service to its customers. With respect to the rate making process, by enforcing the Agreement, the Commission will ensure that parties can rely on negotiated settlements as a method to achieve fair, final and consistent outcomes.

Q. HOW WOULD GRANTING MGE'S REQUEST BENEFIT SHAREHOLDERS AT THE EXPENSE OF RATEPAYERS?

A. Currently the negotiated Panhandle discounts offset some of the gas costs that are recovered through PGA rates. Elimination of the discounts will increase the PGA rates that consumers pay.

Q. WHAT IS THE BASIS FOR MGE'S REQUEST?

A. MGE claims that the market has changed causing the Company to incur greater unrecovered transportation and storage costs. MGE wants out of its ongoing commitment to reflect the pre-transaction pipeline and storage discounts in calculating PGA rates because it claims it can no longer negotiate discounts on Panhandle.

Q. AT PAGE 4, OF HIS DIRECT TESTIMONY, MGE WITNESS NOACK ARGUES ABOUT THE PURPOSE OF THE DISCOUNT PROVISION AS AN ELEMENT OF THE AGREEMENT. IS IT APPROPRIATE FOR THE COMMISSION TO REVISIT THIS ISSUE IN ISOLATION?

A. No. The Agreement was negotiated as a total, "black box" settlement crafted through give and take. Public Counsel's support for the Agreement was based on consideration of all benefit and concessions contained in the Agreement as well as potential litigation risk. In exchange for the discount provision as well as other elements of the Agreement, Public Counsel waived its right to judicial review or to otherwise challenge a commission order approving the merger. It would be unfair for the Commission to allow MGE to shed a single unfavorable term of the Agreement.

Q. EVEN IF THE COMMISSION WERE TO CONSIDER THE DISCOUNT PROVISION IN ISOLATION, PLEASE EXPLAIN HOW THE RECORD

OF THE PROCEEDING MAKES CLEAR, THAT MGE COMMITTED TO PROVIDE THE DISCOUNTS REGARDLESS OF ANY DISCOUNTS IT MIGHT BE ABLE TO NEGOTIATE FROM THE PIPELINE.

A. This understanding of the Agreement was confirmed by MGE's counsel, Mr. Robert Hack, and by counsel for OPC and Staff, when questioned by Commissioner Steve Gaw during the March 26, 2003 presentation of the Agreement to the Commission:

> COMMISSIONER GAW:… I understand that there's an understanding in the stip that the current discounts that are there will stay in place. I'm not clear, I can't recall if there was a - - how long that is intended to go on or is anticipated to go on.
>
> MR. HACK: Well, let me just clarify that. It's intended to go as long - - it's intended to run as long as there is a relationship, an affiliate relationship between MGE and Southern Union Panhandle. What it - - what the provision actually says is that for purposes of calculating MGE's PGA rates, that discount will be used.
>
> Our contracts with Panhandle run - - again, I'm running from the top of my head - - through I'm going to say October or August of '05. So there will be no change in the contract between now and then.
>
> To the extent there is a change in the contract thereafter, it will be whatever we're able to negotiate with the Panhandle. But for purposes of our PGA rates, we will - - we will continue to use that discount percentage.
>
> So Panhandle will be able to comply with its non-discrimination standard at the FERC level by charging us what they're able to negotiate. We will try to protect our interests in those negotiations as best we can, but for purposes of PGA setting, that's what we've agreed to.

COMMISSIONER GAW: I may catch you coming and going here. I apologize for that. I'm just trying to understand both sides of this.

MR. HACK: That's fair.

COMMISSIONER GAW: If you get to that point where the contracts are renegotiated, if it - - it if were feasible or if it were possible to get a lower rate, discount rate - -

MR. HACK: Right.

COMMISSIONER GAW: - - would the PGA then reflect that?

MR. HACK: Absolutely.

COMMISSIONER GAW: But if there is a higher rate, you can't negotiate the same rate, the PGA would still reflect the current, the current discount?

MR. HACK: Correct.

COMMISSIONER GAW: Here's the other side that I want to understand. Is it foreseeable that the FERC could suggest if, for instance, discounts given to other LDCs were not as good, that the FERC could say, you cut a special deal here and we're not going to allow that discount? Is it possible that that could occur with the rules contemplated on affiliate transactions that are out there?

MR. HACK: Well, I don't think that the affiliate rules would change the result one way or the other.

COMMISSIONER GAW: All right.

MR. HACK: If there's a special deal that can't be justified as, quote, due discrimination, then there is that kind of possibility, but - - and that's why we structured the condition here the way we did, to be in agreement to MGE not to pass on any more than the discount level. Whatever the negotiations are going to be, they're going to be based upon the Panhandle's need to comply with the law.

COMMISSIONER GAW: Yeah. Okay. So if they - - if Panhandle has to raise its rates because of that scenario - - and I realize what may be very farfetched - - but in that event, the PGA would actually reflect the change under this agreement or not?

MR. HACK: It would not. We would pay the rate, but the PGA rate wouldn't reflect it. They would charge whatever they charge.

COMMISSIONER GAW: Okay. Mr. Micheel?

MR. MICHEEL: The obligation is MGE's obligation. The obligation in the stipulation has nothing to do with Panhandle Eastern.

COMMISSIONER GAW: I understand that concept. I wanted to make sure that I was tracking it, and I - - I appreciate the explanation, because that clears it up for me a lot. The current - - and, again, that's - - that goes on indefinitely as long - - as long as this affiliation exists?

MR. HACK: I can tell you that's not something we were real wild about, but - -

COMMISSIONER GAW: I understand.

MR. FRANSON: But they did, of course, agree to that.

The above line of questioning demonstrates that all parties to the Agreement understood that if MGE failed to negotiate a discount with Panhandle, the discount would still apply for MGE's customers through the PGA.

Q. DOES MGE'S TESTIMONY INDICATE THAT THE MARKET CONDITIONS THAT LED TO PEPL RENEGOTIATING CONTRACTS AT MAX RATES WERE OCCURRING PRIOR TO THE DATE OF THE AGREEMENT?

A. Yes. MGE witness Gregson describes that the market conditions that led to PEPL renegotiating contracts at max rates began in the late 1990's through early 2000's. The Agreement was signed in March 2003.

Q. PLEASE COMMENT ON MGE'S CLAIM THAT KINDER MORGAN'S PONY EXPRESS CRUDE OIL PROJECT AND THE DISCOUNT PRESERVATION MECHANISM IN THE AGREEMENT MIGHT DISTORT THE DECISION MAKING PROCESS AND ENCOURAGE MGE TO CONTRACT FOR TRANSPORTATION SERVICES THAT MAY NOT BE AS BENEFICIAL TO ITS CUSTOMERS AS TO USE PEPL.

A. First, it is important to clarify that the Kinder Morgan Pony Express project has not been finalized and is contingent on customer commitments and regulatory approval. According to an update on its website, Kinder Morgan indicates that operations on the project are not expected to begin until the first quarter of 2014. A copy of the update is included as Schedule BAM REB 1 to this testimony.

With respect to the potential of MGE purchasing transportation and storage in a manner that disadvantages customers, the Agreement requires MGE to purchase transportation and storage services in a manner that minimizes costs while maintaining reliability. Specifically, Section 6B of the Agreement requires the following:

> In making decisions regarding interstate or intrastate pipeline transportation and storage capacity, MGE will continue to evaluate alternatives with the objective of minimizing cost while obtaining adequate assurances of reliability without regard to whether such services are being provided by an interstate or intrastate pipeline that is an affiliate of MGE or by an interstate or intrastate pipeline which has a management agreement in effect with an affiliate of MGE.

Additionally, Section 6A of the Agreement clarifies that the discount provision does not alter MGE's obligation to obtain the best terms for gas transportation that it can.

Q. DO YOU HAVE CONCERNS ABOUT MGE'S ONGOING COMMITMENT TO OTHER SECTIONS OF THE AGREEMENT?

A. Yes. Other provisions of the Stipulation and Agreement such as sections 5A, 5B, 6B and 6D are also tied to the term of MGE’s affiliation with SUPC and Successor Entities. Allowing MGE to back out of one element of the Stipulation and Agreement in pursuit of shareholder profit may lead to additional attempts to dismantle the Agreement.

Q. WOULD GRANTING MGE'S REQUEST FOR WAIVER OR VARIANCE DIMINISH THE VALUE OF STIPULATION AND AGREEMENTS AS A TOOL TO RESOLVING ISSUES BEFORE THE COMMISSION?

A. Yes. Allowing MGE to deviate from the approved stipulation will also impact the level to which Public Counsel will be willing to rely on negotiated agreements with MGE as an effective means to protect consumer interests in future cases. On a broader scale, if companies are allowed to circumvent commitments for which other parties already made concessions, it will erode the perceived value of stipulations as a fair and reliable means of settling contested issues in other cases before the Commission.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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KINDER MORGAN PONY EXPRESS CRUDE OIL PROJECT

Open Season Update – November 14, 2011

Please be advised that the ongoing Open Season for capacity on KinderMorgan's Pony Express Oil Pipeline from Guernsey, Wyoming to Cushing Oklahoma will close on Tuesday, November 15 at 12:00 p.m. central time as previously announced. Please forward responses to the open season to John Eagleton (john_eagleton@kindermorgan.com) prior to the open season close.

In addition, Kinder Morgan Pony Express Pipeline will consider building a 60 mile, 10 inch lateral, pump station and metering facilities into the DJ basin to a beginning point near 7 North, 63West in Weld County, Colorado to the mainline of the Pony Express Pipeline. An incremental rate is anticipated based on a minimum subscription level of 25,000 bbl/s d and a minimum term of 5 years. Please contact your Kinder Morgan representative for additional information.

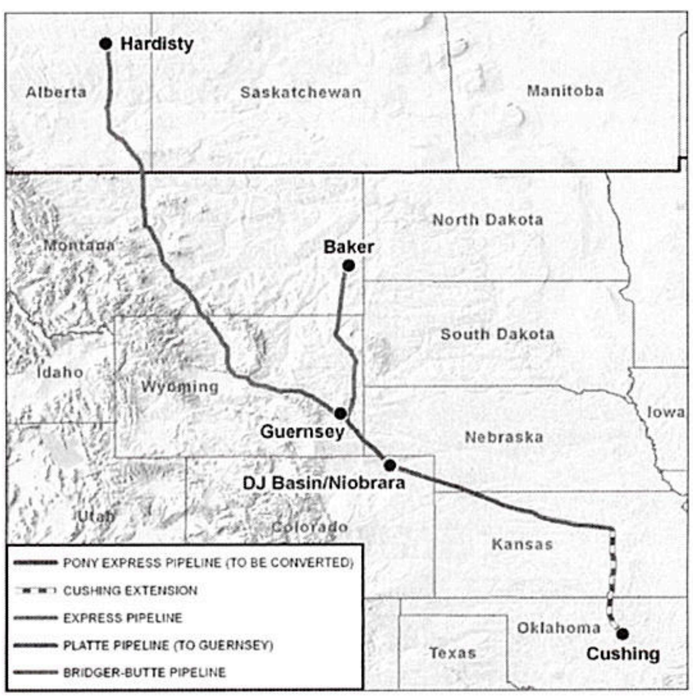
Kinder Morgan Pony Express Pipeline is pleased to announce an extension of its current open season. The original expiration of the open season was October 13th, 2011. The new expiration date is now November 15th, 2011 at 12:00 PM Central Time.

Regarding questions or comments about potential rates for transporting heavy crude, or any other questions or comments, interested shippers may contact John Eagleton @ 303-914-4702, Mike Smith @ 303 763 3484 or Bob Mishler @ 303-914-7762.

Kinder Morgan Energy Partners is pleased to announce the start of a binding open commitment period for available capacity on a proposed crude oil pipeline from Guernsey, Wyoming to Cushing, Oklahoma called the Kinder Morgan Pony Express Pipeline LLC or "Project". The Project would be a conversion of approximately 500 miles of part of the Kinder Morgan Interstate Gas Pipeline system plus a 210 mile green field extension from central Kansas to Cushing. The 710 mile Project would provide up to 210,000 barrels per day (BPD) of light crude that may be received from various sources near Guernsey, Wyoming, including interconnects with the Platte Pipeline and the Bridger-Butte Pipeline, as well as a potential new receipt point in the DJ Basin/Niobrara area in northeastern Colorado. The Project would offer shippers greater access to Cushing from several different production areas, while providing refiners with a reliable, source of crude oil.

During the binding open commitment period, which begins Sept. 8, 2011 and ~~continues until Oct. 13, 2011 at 12 p.m. CDT~~, interested shippers will have an opportunity to execute a firm Transportation Services Agreement to reserve capacity on the new pipeline. Subject to customer commitments and required approvals, the Project is expected to begin service in the first quarter of 2014.

For commercial inquiries about the crude oil pipeline project, please contact: John Eagleton @ 303-914-4702, Mike Smith @ 303 763 3484 or Bob Mishler @ 303-914-7762.



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Schedule BAM REB 1