Exhibit No.:	
Issues:	Mid-Kansas II Contract
Witness:	Michael T. Langston
Sponsoring Party:	Missouri Gas Energy
Case No.:	GR-96-450

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-96-450

REBUTTAL TESTIMONY OF

MICHAEL T. LANGSTON

Jefferson City, Missouri

December 16, 1998

REBUTTAL TESTIMONY OF

MICHAEL T. LANGSTON

Table of Contents

1.	BASIS FOR STAFF PROPOSAL	2
2.	FEBRUARY, 1995 CONTRACT SETTLEMENT	7
3.	CONTRACT PRICING ANALYSIS - COMMODITY PRICING	13
4.	CONTRACT PRICING ANALYSIS - TRANSPORTATION	15

REBUTTAL TESTIMONY OF

MICHAEL T. LANGSTON

CASE NO. GR-96-450

December 16 , **1998**

Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Michael T. Langston. My business address is Southern Union Company ("SUC"), 504 Lavaca, Suite 800, Austin, Texas 78701.

Q. **ARE YOU THE SAME MICHAEL T. LANGSTON THAT HAS PREPARED DIRECT TESTIMONY IN THIS PROCEEDING?**

A. Yes.

Q. **PLEASE STATE THE PURPOSE OF THIS REBUTTAL TESTIMONY.**

A. My rebuttal testimony will address the proposal by Missouri Public Service Commission ("MPSC") Staff witness Wallis for a disallowance of $4,532,449.60 of cost under the Mid-Kansas II (Interim) Gas Sales Contract, dated February 24, 1995 ("Mid-Kansas II Contract"). I will discuss my understanding of the basis of the Staff's position, and will discuss reasons why this basis is unreasonable. I will also address deficiencies in the Staff's analysis by which they arrived at the calculation of the proposed disallowance.

BASIS FOR STAFF PROPOSAL

Q. IN PROPOSING A DISALLOWANCE OF $4,532,449.60 IN THIS PROCEEDING, WHAT BASIS DID THE STAFF INDICATE FOR MAKING THE RECOMMENDATION?

A. In the Staff memorandum dated June 1, 1998, where the recommendation for a gas cost disallowance was made, the Staff said that the basis of this disallowance was Missouri Gas Energy's ("MGE's") response to Staff Data Request No. 23, and the Staff's review of gas supply cost on the Williams Natural Gas Company (now Williams Gas Pipeline-Central, "Williams" or "WNG") pipeline system. Attached as Schedule MTL-6 is a copy of the June 1, 1998 memorandum under which the Staff makes this proposal. This description is contained at the bottom of the first page and represents the only basis stated by the Staff for the proposed disallowance.

Q. DID MGE'S RESPONSE TO STAFF DATA REQUEST NO. 23 CONTAIN A COMPARISON AS INDICATED BY THE STAFF?

A. No. Attached as Schedule MTL-7 is a copy of MGE's response to Staff Data Request No. 23. The Staff simply asked MGE to develop a cost comparison considering a list of ten (10) factors that included demand charges, commodity charges, and volume information. The Staff requested that a breakout of cost with respect to the KPOC/Riverside system be compared to similar cost structures on the Williams system. MGE originally filed its response to Staff Data Request No. 23 as Highly Confidential since it contains specific volume and pricing information applicable under the Mid-Kansas II Contract. In order to develop a full record in this proceeding, we are declassifying this information at this time.

Q. IN THE COMPARISON WHICH MGE CALCULATED IN RESPONSE TO STAFF DATA REQUEST NO. 23, DID MGE CALCULATE A PRICING DIFFERENCE EQUAL TO $4,532,449.60?

A. No. Since all costs that may be involved in utilizing the Williams system as an alternative were not requested by the MPSC Staff, MGE indicated in its response that the WNG comparison was "hypothetical," which was clearly marked on the analysis. In addition, while not specifically requested,MGE also provided a calculation of the KPOC transportation charges that would be applicable given the rate reduction that was effective in August 1997. In addition, but not reflected in this analysis, are further rate reductions that were ordered in October 1997 pursuant to FERC orders.

Q. WHAT IS YOUR UNDERSTANDING OF THE BASIS OF THE STAFF'S CALCULATIONS?

A. Attached as Schedule MTL-8 is a worksheet which the Staff provided in response to a MGE Data Request No. 1 which indicates the calculated comparison utilized by the Staff in making its proposal. As indicated, the Staff utilized an assumed supply cost that was generally based on MGE's Experimental Gas Cost Incentive Mechanism ("EGCIM") approved by the Commission in Case No. GO-94-318, with an index calculation and a 4% premium. The difference between this calculated hypothetical supply cost and the actual cost incurred under the Mid-Kansas II Contract was credited against the transportation cost differentials to arrive at the net proposal of a $4,532,449.60 disallowance.

Q. WHAT DO YOU MEAN BY THE TERMS "INDEX" AND "PREMIUM"?

A. The term "Index" refers to published reference prices for natural gas that are delivered at specific locations throughout the country for gas that is delivered on a spot or interruptible basis for fixed quantities delivered for only one month. "Spot Market" gas is interruptible and prices apply for steady rates of flow on each day. "Spot Market" gas would not be suitable for delivery to high priority customers since this gas is generally not available during extremely cold weather when these customers have the greatest need for natural gas. Therefore, a "premium" is normally paid over a spot market index in order to obtain firm reliable deliveries of natural gas in the market, even on very cold days. In addition, if there is volume flexibility included in the purchase arrangements, the premium may be even greater. By volume flexibility, I mean the ability to alter what would otherwise be a "steady flow" of gas to be able to take different volumes of gas at different times. It obviously costs more if you are getting a more complex service. In the above discussion of the Staff's calculations, a 4% premium represents a price that is 4% higher than the published spot market price index that was utilized. In this case, the Staff utilized the spot market index price based on the first of the month pricing as published in the Inside FERC Gas Market Report applicable for natural gas delivered into the Williams interstate pipeline system. This index is utilized in part of the calculation for MGE's EGCIM mechanism.

Q. WAS THERE ANY OTHER BASIS INDICATED BY THE STAFF FOR ITS PROPOSED DISALLOWANCE?

A. The direct testimony of Staff witness Wallis indicates, beginning on page 2, line 17 through page 3, line 2, that his basis is: 1) MGE's response to Staff Data Request No. 23, and 2) the Staff's review of the Inside FERC Gas Market Report First of the Month WNG Index prices for the ACA Period. There is no other basis indicated in the testimony.

Q. SO YOUR UNDERSTANDING WAS THAT THE BASIS INDICATED IN THE MEMORANDUM AND THE BASIS INDICATED IN MR. WALLIS TESTIMONY ARE ESSENTIALLY THE SAME?

A. Yes.

Q. DOES MGE CONSIDER THIS A REASONABLE BASIS FOR A PROPOSED DISALLOWANCE?

A. No. Disallowances must be based on an issue of prudence, and the simple fact that price levels are different under two contracts is not in and of itself a reasonable basis to propose a prudence disallowance.

Q. DOES MGE NOW UNDERSTAND THE STAFF TO HAVE A DIFFERENT BASIS FOR ITS PROPOSED DISALLOWANCE?

A. Yes. On October 26, 1998, MGE took the deposition of Mr. Wallis and became aware for the first time that the Staff is questioning the prudence of MGE entering into the February 24, 1995 Mid-Kansas II contract. (see M. J. Wallis deposition, page 52 lines 5-8) A copy of the deposition is attached as Schedule MTL-9.

Q. WHAT IS YOUR CURRENT UNDERSTANDING OF THE ALLEGED IMPRUDENCE OF MGE ENTERING INTO THIS CONTRACTUAL ARRANGEMENT?

A. As stated in Mr. Wallis' deposition, page 94, lines 5-11, the Staff is now taking the position that MGE should have negotiated, in February 1995, to sever its relationship and/or terminate its contracts with Mid-Kansas and Riverside. Apparently the Staff thinks that if MGE had asked at that time, it would have been successful in terminating its relationship and could have replaced the 46,332 MMBtu's per day of capacity available under the Mid-Kansas II Contract with service on the Williams system.

Q. DO YOU THINK IT IS PROPER FOR THE STAFF TO BRING UP NEW REASONS FOR DISALLOWANCES AS A CASE PROCEEDS?

A. No. My understanding is that the Staff should have divulged all its reasons in its direct testimony. I understand that the Commission defines direct testimony as being required to "include all testimony and schedules asserting and explaining that party's entire case-in-chief" pursuant to 4 CSR 240-2.130(7).

Q. **TO YOUR KNOWLEDGE, IS THERE ANY FACTUAL BASIS FOR THE STAFF'S NEW ALLEGATION THAT MGE COULD HAVE SEVERED ITS CONTRACTUAL RELATIONSHIP WITH MID-KANSAS/RIVERSIDE IN EARLY 1995?**

A. No. As indicated in Mr. Wallis's deposition, page 94, line 23 through page 95, line 7, there has been no indication from either Mid-Kansas or MGE that such a termination could in fact have been accomplished. Mr. Wallis has not provided any other basis for such an assertion.

Q. **WAS IT YOUR UNDERSTANDING THE MPSC STAFF WOULD HAVE THE ABILITY TO QUESTION THE DECISION MAKING PROCESS OF THE PARTIES IN ENTERING INTO THE FEBRUARY 24, 1995 MID-KANSAS II CONTRACT?**

A. No. As shown in the Stipulation and Agreement that was attached as part of Schedule MTL-3 to my Direct Testimony, under paragraph 5 it states "As a result of this Stipulation and Agreement, the signatories agree that neither the execution of the MKP/WR Sales Agreement and the Riverside/WR Transportation Agreement I, nor the <u>decision associated with the execution of the Missouri Agreements</u> shall be the subject of any further ACA prudence review."

The Missouri Agreements are defined to include the Mid-Kansas II Contract. It is abundantly clear that the decisions regarding execution of those contracts were not to be the subject of further prudence reviews. But the Staff is now citing that as the basis for its recommended disallowance here.

FEBRUARY 1995 CONTRACT SETTLEMENT

Q. PLEASE DESCRIBE THE EVENTS LEADING UP TO THE EXECUTION OF THE FEBRUARY 24, 1995 CONTRACT.

A. The general history of the contract changes was noted in my direct testimony beginning on page 6, line 14, continuing through page 7, line 17. The agreement which is being questioned in this proceeding is referred to as the Mid-Kansas II Contract. It was executed on February 24, 1995. This agreement, and two others, were executed on the same day and in conjunction with a settlement of various litigation between SUC/MGE and Mid-Kansas/Riverside and/or their affiliates.

Q. PLEASE DESCRIBE IN GENERAL TERMS THE ISSUES GIVING RISE TO THE LITIGATION.

A. SUC/MGE acquired its western Missouri distribution properties from Western Resources Inc. ("WRI") effective January 31, 1994. In closing the purchase of those properties, various supply and transportation agreements were assigned by WRI to SUC/MGE, including the predecessor agreement to the Mid-Kansas II Contract, as well as other contracts, and specifically including a reference to agreements that were generally known as the Wraparound and Linchpin contracts. These contracts were agreements between WRI and Mid-Kansas and/or their affiliates, which provided for a major expansion of pipeline capacity into the Kansas City Metro Area. From the time the purchase contract was executed until closing, there were ongoing negotiations between WRI and Mid-Kansas and/or its affiliates with regard to the Wraparound and Linchpin agreements, and as a result of these negotiations, WRI made various representations to SUC/MGE about the status of these contracts at closing. Subsequently, WRI and Mid-Kansas and/or its affiliates disclaimed and/or disputed the representations which SUC/MGE understood it had received at closing on the purchase of the properties. As result, SUC/MGE filed cases against WRI and Mid-Kansas and/or the affiliates on various contract issues in the Federal District Court of Western Missouri in Kansas City.

Q. DID MGE RAISE CLAIMS WITH REGARD TO THE ORIGINAL MID-KANSAS CONTRACT DATED JANUARY 15, 1990?

A. Yes. There were claims and cross claims between all three parties and in these claims SUC/MGE also asserted various claims regarding the January 15, 1990 agreement, as amended.

Q. IN THE LITIGATION, DID MGE FEEL THAT IF SUCCESSFUL IN THE LITIGATION IT COULD HAVE TERMINATED THE JANUARY 15, 1990 AGREEMENT WITH NO FURTHER OBLIGATIONS?

A. The most material issues by far involved the Wraparound and Linchpin contracts. As to the January 15, 1990 contract, even if successful, MGE did not feel that the litigation would result in full termination, but would lead to a restructuring of the agreement.

Q. DID MGE UNDERTAKE ANY STUDIES OF PEAK DAY CAPACITY REQUIREMENTS AFTER IT ACQUIRED THE WRI PROPERTIES?

A. Upon closing of its purchase of the western Missouri properties, on January 31, 1994, MGE undertook a study of the peak day demands existing in the western Missouri area as compared to its contracted capacity on the pipeline systems serving the distribution systems. These pipelines were primarily the Williams pipeline system, Panhandle Eastern Pipe Line Company, and the Mid-Kansas/Riverside system. MGE's analysis showed that there was a lack of capacity in the western Missouri area, and particularly the Kansas City, Missouri area, necessary to serve connected peak day demand if MGE were to encounter extremely cold weather as experienced in December, 1989. These projections for needed capacity were shared with the MPSC Staff in June 1994. The projections indicated the general need for approximately 150,000 MMBtu's of capacity in the market place to ensure service under a historic peak day demand scenario.

Q. WAS THIS NEED FOR ADDITIONAL CAPACITY IN PART A REASON FOR MGE TO FILE THE LITIGATION?

A. Yes. Upon recognition that MGE needed additional pipeline capacity, SUC/MGE needed to have absolute resolution of the status of the Wraparound and Linchpin agreements, and whether or not they constituted a viable alternative for additional pipeline capacity into the western Missouri market.

Q. DID MGE UNDERTAKE AN ANALYSIS OF ALTERNATIVES?

A. Yes. MGE contracted with Reed Consulting Group ("Reed") to provide an analysis of the alternatives for obtaining incremental capacity into the western Missouri area. This analysis was summarized in a report dated February 14, 1995 entitled "Assessment of the Various Pipeline Expansion Alternatives Available to Serve MGE's Kansas City, Missouri Market." While MGE has maintained this report as confidential in the past, MGE now has obtained additional interconnected capacity into the Kansas City, Missouri area, and is currently flowing gas under an alternate pipeline route. As a result, MGE is declassifying this report as public information in order to assist the MPSC in its review of the MGE's position in this proceeding. This report is attached to my testimony as Schedule MTL-10.

Q. WHAT WAS THE PRIMARY FINDING OF THIS REPORT?

A. On page 4 of the report, Reed indicated that without incremental capacity, MGE could experience shortfalls as early as 1996 based on historic demand or as late as 1999 based on an overall design standard. Therefore, Reed indicated that it was prudent for MGE to develop additional capacity and supply alternatives to ensure its ability to provide reliable service. A discussion of the difference between "normal" and "design" standards can be found in the report.

Q. DID REED DEVELOP A RECOMMENDATION?

A. Yes. Reed recommended the construction of a lateral from the Panhandle Eastern system to MGE's Kansas City distribution system.

Q. WAS THIS RECOMMENDATION INCLUDED IN THE SETTLEMENT ENTERED INTO WITH MID-KANSAS/RIVERSIDE?

A. Yes. The settlement with Mid-Kansas/Riverside generally provided certainty for four primary issues. First, the existing Mid-Kansas contract was terminated and replaced by *the Mid-Kansas II Contract, which is the subject of this proceeding.* Second, MGE obtained a commitment that Mid-Kansas/Riverside would work toward being able to provide service in interstate commerce, with the Mid-Kansas II Contract terminating, and Mid-Kansas/Riverside providing a transport only service under the Riverside I Firm Gas Transportation Agreement dated February 24, 1995 ("Riverside I Agreement") upon authorization by the FERC. Third, MGE executed the Riverside II Firm Gas Transportation Agreement dated February 24, 1995 ("Riverside II Agreement") which provided for construction of a lateral by Riverside Pipeline from a point of interconnect with Panhandle Eastern Pipe Line to a location on MGE's distribution system at 107th and Elm St. Fourth, MGE assigned various claims it had against WRI under the Wraparound and Linchpin agreements to Mid-Kansas/Riverside and/or its affiliates.

Q. DO YOU BELIEVE THIS SETTLEMENT WAS BENEFICIAL TO THE RATEPAYERS?

A. Yes. Specifically in regard to the Mid-Kansas II Contract, MGE obtained substantial commodity price reductions, elimination of volumetric limitations under the previous contract, substantial take flexibility on a day to day basis, and other provisions which led to a much more flexible utilization of the contract.

Q. WHAT TYPE OF SAVINGS WERE GENERATED UNDER THE MID-KANSAS II CONTRACT WHEN COMPARED TO THE ORIGINAL AGREEMENT?

A. Attached as Schedule MTL-11 is an analysis that shows the original Mid-Kansas I pricing, which was at approximately 114% of a Mid-Continent pipeline basket price, compared to the pricing of the Mid-Kansas II Contract, when applied against the volumes taken during this ACA period. This negotiated commodity price reduction provided savings to the ratepayers in this ACA period of $5,015,876.

Q. WAS THE LATERAL THAT WAS CONTRACTED FOR UNDER THE RIVERSIDE II AGREEMENT CONSTRUCTED?

A. Yes. This lateral was constructed with interconnects complete into the MGE system in September 1997. Construction was begun by Mid-Kansas/Riverside and/or their affiliates, and the contract agreement and facilities were sold and/or assigned to KN Energy who completed the interconnect into MGE's distribution system. In conjunction with the sale and assignment, MGE further re-negotiated with KN Energy to terminate the Riverside II Agreement and entered into a new contract that provided MGE capacity on KN's Pony Express Pipeline system. This capacity has given MGE access to greater volumes of lower priced Rocky Mountain supplies, under transportation rates that are lower than the cost that would have otherwise been incurred on the Williams pipeline system.

Q. WHAT ROLE, IF ANY, DID YOU PLAY IN THE SETTLEMENT NEGOTIATIONS LEADING UP TO THE EXECUTION OF THE FEBRUARY 25, 1995 CONTRACTS?

A. With the assistance of both inside and outside counsel, I was directly involved with the negotiations.

Q. DURING THE SETTLEMENT NEGOTIATIONS LEADING UP TO THE EXECUTION OF THE FEBRUARY 24, 1995 CONTRACTS, DO YOU BELIEVE MGE COULD HAVE NEGOTIATED A FULL TERMINATION OF ITS EXISTING CONTRACT ARRANGEMENTS WITH MID-KANSAS/RIVERSIDE AND/OR ITS AFFILIATES?

A. No. MGE had assumed, upon purchase of the Missouri distribution properties, the January 15, 1990 contract as amended in 1991, which had an existing term extending to 2009. Attached as Schedule MTL-12 is a copy of a deposition of Mr. Dennis Langley taken on October 28, 1998. In the deposition beginning with the question on page 28, line 14 through the answer ending on page 30, line 3, Mr. Langley indicates clearly that Mid-Kansas/Riverside could not have considered a complete termination of the agreement.

Q. DO YOU BELIEVE MID-KANSAS/RIVERSIDE AND/OR ITS AFFILIATES WOULD HAVE BEEN IN A FINANCIAL POSITION TO ALLOW MGE TO TERMINATE ITS CONTRACTUAL ARRANGEMENT?

A. No. By a filing made in October 1997, Kansas Pipeline, one of the Mid-Kansas/Riverside affiliates, indicated that the revenues under a FERC order, that would have reduced the revenues available to the pipeline for transportation, were so low that unless corrected on rehearing Kansas Pipeline would essentially be forced into bankruptcy. Attached as Schedule MTL-13 and MTL-14 are copies of the FERC order and the Kansas Pipeline filing, respectively. The reductions called for by the FERC in their October 3, 1997 order would not have reduced Kansas Pipeline's rates down to levels comparable to William's rates, as proposed by the Staff in their analysis. Therefore, it is unrealistic to think that MGE could have negotiated rates on the Mid-Kansas/Riverside system down to levels comparable to the Williams system, much less to terminate the agreement in total.

Q. CAN YOU SUMMARIZE THE BENEFITS OBTAINED BY MGE IN ENTERING INTO A SETTLEMENT WITH THE MID-KANSAS/RIVERSIDE GROUP?

A. Yes. MGE obtained the following benefits: 1) resolved the questionable status of contracts assumed in the acquisition of the Missouri properties, 2) contracted to provide for incremental capacity required to meet peakday demands in the market place, 3) reduced existing commodity rates by an amount that produced over $5 million in savings to the Missouri ratepayers during this ACA year, 4) ensured Mid-Kansas/Riverside future operations would be consistent with FERC Order 636 requiring transportation only service, and 5) resolved claims, counter claims, and litigation through this settlement. None of the substantial sums that MGE expended to obtain these benefits for the Missouri ratepayers have ever been recovered from those ratepayers through cost of service rates because they were not in the test period for any rate case.

<u>CONTRACT PRICING ANALYSIS - COMMODITY PRICING</u>

Q. WERE THERE OTHER CONCERNS YOU HAVE WITH THE WAY THE STAFF HAS PERFORMED THEIR ANALYSIS REGARDING THE COMMODITY PORTION OF THE MID-KANSAS II CONTRACT?

A. Yes. The Staff has provided an analysis showing that negotiated commodity prices under the Mid-Kansas II Contract were substantially lower than the commodity prices available on the Williams system. However, the Staff has utilized a 4% premium over the index calculations, as contained in the MGE's EGCIM. In the MPSC's Order in Case No. GO-94-318, which implemented the EGCIM mechanism, there is a tolerance zone from a 4% premium over index to an 8% premium over index in which the Commission determined that there would be no disallowance, and no sharing of excess cost. Therefore, the Staff's selection of a 4% premium biases this analysis to the most detrimental calculation to MGE. Pursuant to the Order in Case No. GO-94-318, an 8% premium over the index calculation is just as viable as the 4% premium utilized in the Staff's analysis.

Q. **ARE THERE OTHER PRICING COMPARISONS THAT WOULD BE VALID?**

A. Yes. MGE purchases gas under contracts with Amoco and OXY which are known as the Tight Sands Agreements. These purchases are made pursuant to contracts entered into as a result of an antitrust settlement, prior to MGE coming into existence. In my opinion, the MPSC has effectively deemed these contracts to be prudent, as no cost incurred under the Tight Sands contracts has ever been disallowed in any ACA proceeding. Therefore, the cost applicable under the Tight Sands contracts, when applied against the volumes purchased under the Mid-Kansas II Contract, would also be a valid comparison of the potential commodity price credit that should be allowed, assuming the Staff's analysis is even appropriate. Attached as Schedule MTL-15 is an analysis which shows the volumes taken under the Mid-Kansas II Contract, the values under applicable pricing assuming an 8% premium, as well as the Tight Sands pricing as calculated off the OXY Tight Sands contract invoicing. As can be seen, as opposed to the $3.1 million dollar credit provided by the Staff, calculations of gas cost using a 8% premium would yield a $4.1 million dollar credit and calculations utilizing the Tight Sands contract would provide a $5.2 million dollar credit. These numbers are substantially greater than those utilized by the Staff, yet represent just as prudent, and just as viable, a calculation as that proposed by the Staff.

Q. IS THIS THE ONLY ADJUSTMENT THAT NEEDS TO BE MADE TO THE STAFF'S COMMODITY COMPARISON?

A. No. As previously indicated, the Mid-Kansas II Contract provides tremendous volume flexibility allowing MGE to take, on any day, from zero to 46,332 MMBtu's per day. In this regard, this contract serves much more like a peaking supply contract, as compared to a baseload supply which would be more typical of either the Tight Sands gas or most volumes purchased into the Williams system. This volume provides over 5% of our projected peakday service needs, or the volumes needed by approximately 24,000 residential customers during extremely cold weather. As an example of the premiums paid for peaking supplies, attached as Schedule MTL-16, is a contract between MGE and KN Gas Marketing, dated December 1, 1994, which contains baseload pricing applicable at an index price plus $0.02 cents per MMBtu, that indicates additional peaking supply available at 112% of a daily market index. With an index price of approximately $2.00, the baseload supplies were purchased at a 1% premium with peaking supplies at a 12% premium. Therefore, the Mid-Kansas II contract provides a peaking supply service that typically includes an effective 11% premium. An adjustment for this premium should also be made in order to compare the effective base load price of the Mid-Kansas II commodity rate compared to the Tight Sands commodity pricing.

CONTRACT PRICING ANALYSIS - TRANSPORTATION

Q. ARE THERE OTHER QUESTIONS WHICH YOU HAVE OF THE STAFF'S ANALYSIS?

A. Yes. The Staff has compared the transportation cost under the Mid-Kansas II Contract to the estimated cost available on the Williams system. However, if MGE were to actually contract for an incremental 46,332 MMBtu's of capacity on another pipeline system, substantial capital investment could be required by the pipeline to upgrade its facilities to provide this incremental capacity. This is particularly true if the contract term were several years in length, and would constitute a major market expansion for the pipeline system. In this regard, potential transportation on the Panhandle Eastern Pipe Line system could also be viable and, therefore, calculation of transportation alternatives utilizing Panhandle Eastern Pipe Line rates would be just as valid as the calculations utilized by the Staff on the Williams system.

Q. DOES THE STAFF IN GENERAL CONSIDER THE PANHANDLE EASTERN TRANSPORTATION COST TO BE REASONABLE AND PRUDENT?

A. Yes. Mr. Wallis in his deposition, page 18, line 8-12, indicates such a result.

Q. WOULD COMPARISON WITH THE PANHANDLE EASTERN TRANSPORTATION COST ALSO BE VALID?

A. I believe so. Attached as Schedule MTL-17 is the analysis that shows the actual Kansas Pipeline transportation costs, and the estimated Panhandle Eastern Pipe Line transportation costs. This indicates that, as opposed to a $7.7 million dollar potential disallowance for transport cost, the difference compared to Panhandle Eastern would only be $5,900,000.

Q. ARE THERE OTHER FACTORS THAT THE STAFF HAS NOT CONSIDERED?

A. Yes. Subsequent to this ACA period, the Mid-Kansas/Riverside Pipeline system was subject to orders from the Kansas Corporation Commission and the FERC, which effectively ordered refunds of amounts previously collected for transportation. These refunds amounted to $1,973,383.94 and $1,368,281.80, and have been recovered by MGE and flowed through to the ratepayers in a subsequent ACA period. However, in order to do a meaningful comparison of actual transportation cost, the Staff must consider an appropriate allocation of refunded monies to the ACA period in order to properly calculate what the actual and true Kansas Pipeline transportation cost was.

Q. DID MGE CALCULATE AN APPROPRIATE REFUND ALLOCATION?

A. Yes. Of the amounts refunded, covering various periods, the appropriate allocation to this ACA period would be $1,027,588. Attached as part of Schedule MTL-17 are the monthly adjustment calculations, and a summary showing the adjustment to the Mid-Kansas/Riverside transportation costs.

Q. ARE THERE OTHER ISSUES INVOLVING THE STAFF'S ANALYSIS OF TRANSPORTATION COST?

A. Yes. On the Williams system, there are surcharges applicable for Gas Supply Realignment ("GSR") cost that arose as a result of the FERC's Order 636 and Williams' elimination of its merchant function. These costs are primarily take or pay costs incurred under various contracts which Williams has remaining with various producers in Colorado. These contracts have been the subject of substantial litigation at the FERC, but Williams files on a quarterly basis for recovery of pricing differences applicable under those contracts. Attached as Schedule MTL-18 is a copy of a notice filing made by Williams in late 1996 which indicates the applicable quarterly GSR cost incurred by Williams for three quarters. As noted in the filing, these costs run approximately $2,750,000 per quarter and are allocated to customers based on their firm contract demand quantities.

Q. WOULD THESE COSTS BE INCURRED IF MGE INCREASED ITS CONTRACT QUANTITY ON WILLIAMS BY 46,332 MMBTU'S?

A. MGE has estimated this would increase our allocation percentage by approximately one percent, and increase our quarterly GSR cost allocation by approximately $27,500.

Therefore an estimate of additional annual Williams cost that would be incurred would be approximately $110,000 annually based on the current allocation methodology. As always, should these cost levels increase, the allocation would similarly increase on an annual basis.

Q. CAN YOU SUMMARIZE ALL THE ADJUSTMENTS WHICH YOU FEEL NEED TO BE MADE TO THE STAFF'S ANALYSIS?

A. Yes. Attached as Schedule MTL-19 is a schedule which shows a similar analysis. This compares the Mid-Kansas II commodity rate, adjusted for the equivalent KN contract peaking premiums that would be applicable for similar volumes, to the Tight Sands Contract costs. In addition, the transportation costs for the Mid-Kansas II Contract, adjusted for the subsequent refunds received, are compared to the Panhandle Eastern transportation rates. The resulting net difference shows no disallowance to the Mid-Kansas II Contract rates is justified.

Q. CAN YOU SUMMARIZE YOUR TESTIMONY?

A. Yes. The MPSC Staff has only recently indicated a new basis for a prudence disallowance proposal made in its June 1, 1998 recommendation to the Commission in this ACA case. This basis arises out of its presumption that decisions that MGE made to enter into the Mid-Kansas II Contract agreement were imprudent as lower cost alternatives were presumably available. MGE has shown that this is not the case. The Staff has not produced any documentation that shows there was any other viable and economical alternative that MGE had which it chose to ignore. MGE has shown that the settlement itself was immediately beneficial to ratepayers resulting in lower overall cost. In addition, looking at the Staff's analysis alone, other equally valid pricing analyses show that the potential difference is more than justified given the peaking supply nature of the Mid-Kansas II supply arrangements. Therefore, there is no basis for any prudence disallowance under this Mid-Kansas II Contract.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes it does.

SCHEDULE
MTL - 6

copy

RECEIVED
JUN 2 1998
BRYDON, SWEARENGEN & ENGLAND P.C.

FILED
JUN 1 1998
MISSOURI PUBLIC SERVICE COMMISSION

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-96-450
Missouri Gas Energy, a Division of Southern Union Company

FROM: Mike Wallis MW
Procurement Analysis Department

R.E. Schallenberg 5/29/98 Thomas R. Schwarz Jr. 6/1/98
Utility Services Division/Date General Counsel's Office/Date

SUBJECT: Staff's recommendation in Case No. GR-96-450, Missouri Gas Energy's 1996-1997 Actual Cost Adjustment Filing

DATE: June 1, 1998

The Staff has reviewed the 1996-1997 Actual Cost Adjustment (ACA) filing (docketed as Case No. GR-96-450) for Missouri Gas Energy (MGE or Company). The Staff's review consisted of an analysis of the billed revenues and actual gas costs, for the period of July 1996 to June 1997. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA, Refund, Take-or-Pay (TOP), and Transition Cost balances. An examination of MGE's gas purchasing practices was also performed to determine the prudence of the Company's purchasing decisions. MGE transports its gas supply over Panhandle Eastern Pipeline (PEPL), Williams Natural Gas (WNG), and Mid-Kansas Partnership/Riverside Pipeline Company (MKP/RPC).

The 1996-1997 ACA period is also the first year of MGE's incentive plan. Staff's findings with regard to the incentive plan are contained in its September 12, 1997 report in Case No. GO-96-243. The Staff proposes to adjust MGE's 1996-1997 ACA recovery balance to reflect Staff's (1) MKP/RPC Pipeline Adjustment and (2) Overrun Penalty Adjustment.

MKP/RPC PIPELINE ADJUSTMENT

During the 1996-1997 ACA period, MGE incurred $34,940,234.47 in natural gas costs (fixed and variable transportation charges and gas supply costs) with respect to its gas supply and transportation contract with MKP/RPC. Based on MGE's response to Staff Data Request No. 23 and Staff's review of gas supply costs on the WNG pipeline, Staff believes that the same contractual services which MGE received, during the 1996-1997 ACA period from MKP/RPC, could have been obtained from WNG for a total price of $30,407,784.87. As a result, Staff proposes an adjustment which will reduce MGE's gas costs by $4,532,449.60.

MO PSC Case No. GR-96-450,
Official Case File Memorandum,
Page 2 of 3.

OVERRUN PENALTY ADJUSTMENT

According to MGE's response to Staff Data Request No. 17, Company did not include, in its 1996-1997 ACA filing, $6,177.39 in overrun penalties assessed to its end-user transportation customers. Staff believes, that in order to be consistent with MGE's normal practice of including end-user overrun penalties as a component of PGA revenue recovery, the $6,177.39 in overrun penalties should be added to the total PGA revenue recovery amount in Company's ACA filing. As a result, Staff proposes an adjustment which will increase MGE's total PGA revenue recovery amount by $6,177.39.

SUMMARY

- The Staff proposes an adjustment to reduce Company's gas costs by $4,532,449.60 to compensate MGE's customers for excessive amounts paid to MKP/RPC for gas supplies and transportation during the 1996-1997 ACA period.
- The Staff proposes an adjustment which will increase Company's total PGA revenue recovery amount by $6,177.39 to account for end-user overrun penalties which were not included in Company's 1996-1997 ACA filing.

RECOMMENDATIONS

The Staff recommends the Commission issue an order requiring:

1) MGE to adjust its ACA recovery balance from a $12,039,659.37 under-recovery to a $7,501,032.38 under-recovery;

2) MGE to establish the Take-or-Pay Account balance, as filed, at a $638,695.03 under-recovery;

3) MGE to establish the Transition Cost Account balance, as filed, at a $2,248,648.81 under-recovery;

4) MGE to establish the Refund Account balance, as filed, for the Residential Service, Small General Service, Large General Service, and Unmetered Gaslight Service customer classes at $4,358,874.49;

5) MGE to establish the Refund Account balance, as filed, for the Large Volume Service customer class at $55,715.88;

SCHEDULE
MTL - 7

MISSOURI GAS ENERGY
A Division of Southern Union Company

Missouri Public Service Commission
DATA INFORMATION REQUEST RESPONSE
Missouri Rate Case No: GR-96-450
Data Request No: 23

Requested From: Ted Austin

Data Requested: April 3, 1998

Information Requested:

Please provide for the 1996/1997 ACA period, the total natural gas costs with respect to KPOC/Riverside, broken down by month into the following components:

1. Fixed Transportation Charges
2. Variable Transportation Charges
3. Volumes Transported and/or Delivered to the City Gate
4. Fixed Transportation Reservation and/or Demand Rates
5. Variable Transportation Rates
6. Gas Supply Demand Charges
7. Gas Supply Commodity Charges
8. Gas Supply Demand Prices/Rates
9. Gas Supply Commodity Prices
10. Volumes Purchased

Please provide the above requested information, with the exception of Item No. 3 and Item No. 10 with the assumption that the same services provided by KPOC/Riverside (including the same levels of volumes in Items 3 and 10) would have been provided entirely by Williams Natural Gas Company under the FT service criteria.

Response:

The attached Exhibit 23-1A reflects the KPOC/Riverside services as invoiced to MGE for the 1996/1997 ACA period broken down into the components as requested. The exhibit also reflects a hypothetical scenario as if the same (KPOC/Riverside) volumes were purchased and transported on the Williams Pipeline Central, Inc. pipeline broken down into the same components as requested. The fuel commodity consumed on KPOC/Riverside is shown as a "variable transportation charge" as opposed to a "Payment in Kind" of additional commodity purchased on the Williams Pipeline Central, Inc. pipeline.

Exhibit 23-1B reflects essentially the same items as described above; however, we have adjusted the KPOC/Riverside "fixed transportation costs" to reflect the rate reduction which became effective in August 1997.

The attached Exhibits 23-2 (KPOC Actuals), 23-3 (WNG Hypothetical), and 23-4 (KPOC Adjusted) provide detailed support and calculation of the information summarized on Exhibit 23-1.

Missouri Gas Energy, a division of Southern Union Company

Exhibit 23-1A
Case No. GR-96-450
Based on KPOC Actual Rates for the 1996/1997 ACA Period

		KPOC Actuals	WNG Hypothetical
Fixed Transportation Charges	(1)	$11,955,046.17	$5,476,757.44
Variable Transportation Charges	(2)	$1,478,112.36	$257,641.02
Volumes Delivered to City Gate	(3)	8,475,964	8,475,964
Fixed Transportation Reservation Effective Rate	(4)	$1.4105	$0.6462
Variable Transportation Effective Rate	(5)	$0.1744	$0.0304
Gas Supply Demand Charges	(6)	$0.0000	$5,986,747.17
Gas Supply Commodity Charges	(7)	$21,507,075.94	$21,573,647.02
Gas Supply Demand Prices/Rates	(8)	$0.0000	$0.6776
Gas Supply Commodity Prices	(9)	$2.5374	$2.4417
Volumes Purchased	(10)	8,475,964	8,835,571

Exhibit 23-1B
Case No. GR-96-450
KPOC Adjusted Rates reflecting the KPOC rate reduction effective August 1997

		KPOC Adjusted	WNG Hypothetical
Fixed Transportation Charges	(1)	$11,318,277.69	$5,476,757.44
Variable Transportation Charges	(2)	$1,478,112.36	$257,641.02
Volumes Delivered to City Gate	(3)	8,475,964	8,475,964
Fixed Transportation Reservation Effective Rate	(4)	$1.3353	$0.6462
Variable Transportation Effective Rate	(5)	$0.1744	$0.0304
Gas Supply Demand Charges	(6)	$0.00	$5,986,747.17
Gas Supply Commodity Charges	(7)	$21,507,075.94	$21,573,647.02
Gas Supply Demand Prices/Rates	(8)	$0.0000	$0.6776
Gas Supply Commodity Prices	(9)	$2.5374	$2.4417
Volumes Purchased	(10)	8,475,964	8,835,571

Missouri Gas Energy, a division of Southern Union Company
Exhibit 23-2
Case No. GR-96-450
KPOC Actual Rates for the 1996/1997 ACA Period

	KPOC ACTUALS - SUMMARY				
Month/ Year	City Gate Deliveries (MMBtu)	Fixed Transportation Costs (Reservation)	Variable Transportation Costs	Gas Supply Commodity Costs	Total Costs
Jul-96	302,237	$996,253.84	$66,018.24	$637,871.19	$1,700,143.27
Aug-96	157,829	$996,253.84	$23,911.35	$318,183.26	$1,338,348.45
Sep-96	0	$996,253.84	$0.00	$0.00	$996,253.84
Oct-96	145,866	$996,253.85	$19,491.46	$228,207.36	$1,243,952.67
Nov-96	792,166	$996,253.86	$129,580.18	$1,838,250.92	$2,964,084.96
Dec-96	1,438,462	$996,253.85	$281,202.38	$4,500,585.22	$5,778,041.45
Jan-97	1,451,756	$996,253.84	$324,351.35	$5,563,854.87	$6,884,460.06
Feb-97	1,296,765	$996,253.85	$226,650.59	$3,376,776.06	$4,599,680.50
Mar-97	713,137	$996,253.84	$92,921.91	$1,055,799.33	$2,144,975.08
Apr-97	718,774	$996,253.84	$96,943.25	$1,147,163.30	$2,240,360.39
May-97	739,217	$996,253.84	$107,997.62	$1,389,358.35	$2,493,609.81
Jun-97	719,755	$996,253.84	$109,044.03	$1,451,026.08	$2,556,323.95
Totals	8,475,964	$11,955,046.17	$1,478,112.36	$21,507,075.94	$34,940,234.47

KANSOK PARTNERSHIP - TRANSPORTATION COSTS										
Month/ Year	Fixed Transport Cost (Reservation) (MMBtu)	Rate	Subtotal	Variable Transport Cost (Commodity) (MMBtu)	Rate	Subtotal	Variable Transport Cost (Fuel)	Rate	Subtotal	Total Transport Costs
Jul-96	46,332	$4.5544	$211,014.46	314,203	$0.0567	$17,815.31	7,478	$2.1105	$15,782.32	$244,612.09
Aug-96	46,332	$4.5544	$211,014.46	164,078	$0.0567	$9,303.22	3,905	$2.0160	$7,872.48	$228,190.16
Sep-96	46,332	$4.5544	$211,014.46	0	$0.0567	$0.00	0	$1.5540	$0.00	$211,014.46
Oct-96	46,332	$4.5544	$211,014.46	151,641	$0.0567	$8,598.04	3,609	$1.5645	$5,646.28	$225,258.78
Nov-96	46,332	$4.5544	$211,014.46	823,529	$0.0567	$46,694.09	19,600	$2.3100	$45,276.00	$302,984.55
Dec-96	46,332	$4.5544	$211,014.46	1,495,413	$0.0567	$84,789.92	35,591	$3.0765	$109,495.71	$405,300.09
Jan-97	46,332	$4.5544	$211,014.46	1,509,234	$0.0567	$85,573.57	35,920	$3.8325	$137,663.40	$434,251.43
Feb-97	46,332	$4.5544	$211,014.46	1,348,106	$0.0567	$76,437.61	32,085	$2.6040	$83,549.34	$371,001.41
Mar-97	46,332	$4.5544	$211,014.46	741,371	$0.0567	$42,035.74	17,645	$1.4805	$26,123.42	$279,173.62
Apr-97	46,332	$4.5544	$211,014.46	747,232	$0.0567	$42,368.05	17,784	$1.5960	$28,383.26	$281,765.77
May-97	46,332	$4.5544	$211,014.46	768,484	$0.0567	$43,573.04	18,290	$1.8795	$34,376.06	$288,963.56
Jun-97	46,332	$4.5544	$211,014.46	748,251	$0.0567	$42,425.83	17,808	$2.0160	$35,900.93	$289,341.22
Totals			$2,532,173.52	8,811,542		$499,614.42	209,715		$530,069.20	$3,561,857.14

KANSAS NATURAL PARTNERSHIP ZONE 1 - TRANSPORTATION COSTS

Month/ Year	Fixed Transport Costs (Reservation) (MMBtu)	Rate	Subtotal	Rate	Variable Transport Cost	Variable Transport Cost (Commodity) (MMBtu)	Rate	Subtotal	Variable Transport Cost (Fuel)	Rate	Subtotal	Total Transport Costs
Jul-96	46,332	$7.9583	$368,723.96	$0.1788	$8,284.16	305,169	$0.0041	$1,251.19	1,556	$2.1105	$3,283.94	$381,543.25
Aug-96	46,332	$7.9583	$368,723.96	$0.0000	$0.00	169,360	$0.0041	$653.38	813	$2.0160	$1,639.01	$371,016.35
Sep-96	46,332	$7.9583	$368,723.96	$0.0000	$0.00	0	$0.0041	$0.00	0	$1.5540	$0.00	$368,723.96
Oct-96	46,332	$7.9583	$368,723.96	$0.0000	$0.00	147,281	$0.0041	$603.85	751	$1.5645	$1,174.94	$370,502.75
Nov-96	46,332	$7.9583	$368,723.96	$0.0000	$0.00	799,850	$0.0041	$3,279.39	4,079	$2.3100	$9,422.49	$381,425.84
Dec-96	46,332	$7.9583	$368,723.96	$0.0000	$0.00	1,452,415	$0.0041	$5,954.90	7,407	$3.0765	$22,787.64	$397,466.50
Jan-97	46,332	$7.9583	$368,723.96	$0.0000	$0.00	1,465,838	$0.0041	$6,009.94	7,476	$3.8325	$28,651.77	$403,385.67
Feb-97	46,332	$7.9583	$368,723.96	$0.0000	$0.00	1,309,344	$0.0041	$5,368.31	6,678	$2.6040	$17,389.51	$391,481.78
Mar-97	46,332	$7.9583	$368,723.96	$0.0000	$0.00	720,054	$0.0041	$2,952.22	3,672	$1.4805	$5,436.40	$377,112.58
Apr-97	46,332	$7.9583	$368,723.96	$0.0000	$0.00	725,746	$0.0041	$2,975.56	3,701	$1.5960	$5,906.80	$377,606.32
May-97	46,332	$7.9583	$368,723.96	$0.0000	$0.00	746,387	$0.0041	$3,060.19	3,807	$1.8795	$7,155.26	$378,939.41
Jun-97	46,332	$7.9583	$368,723.96	$0.0000	$0.00	726,737	$0.0041	$2,979.62	3,706	$2.0160	$7,471.30	$379,174.88
Totals			$4,424,687.47		$8,284.16	8,558,181		$35,088.55	43,646		$110,319.06	$4,578,379.29

KANSAS PIPELINE PARTNERSHIP ZONE 2 - TRANSPORTATION COSTS

Month/ Year	Fixed Transport Cost (Reservation) (MMBtu)	Rate	Sub Total	Rate	Variable Transport Cost	Variable Transport Cost (Commodity) (MMBtu)	Rate	Subtotal	Variable Transport Cost (Fuel)	Rate	Subtotal	Variable Transport Cost (Excess Fuel)	Rate	Subtotal	Total Transport Cost
Jul-96	46,332	$8.4718	$392,515.44	$0.2334	$10,813.89	302,237	$0.0037	$1,118.28	2,932	$2.1105	$6,187.99	0	$0.0000	$0.00	$410,635.60
Aug-96	46,332	$8.4718	$392,515.44	$0.00	$0.00	157,829	$0.0037	$583.97	1,531	$2.0160	$3,086.50	0	$0.0000	$0.00	$396,185.91
Sep-96	46,332	$8.4718	$392,515.44	$0.00	$0.00	0	$0.0037	$0.00	0	$1.5540	$0.00	0	$1.6280	$0.00	$392,515.44
Oct-96	46,332	$8.4718	$392,515.44	$0.00	$0.00	145,866	$0.0037	$539.70	1,415	$1.5645	$2,213.77	0	$0.0000	$0.00	$395,268.91
Nov-96	46,332	$8.4718	$392,515.44	$0.00	$0.00	792,166	$0.0037	$2,931.01	4,548	$2.3100	$10,505.88	3,136	$2.4200	$7,589.12	$413,541.45
Dec-96	46,332	$8.4718	$392,515.44	$0.00	$0.00	1,438,462	$0.0037	$5,322.31	6,550	$3.0765	$20,151.08	7,404	$3.4650	$25,654.86	$443,643.69
Jan-97	46,332	$8.4718	$392,515.44	$0.00	$0.00	1,451,756	$0.0037	$5,371.50	14,082	$3.8325	$53,969.27	0	$0.0000	$0.00	$451,856.21
Feb-97	46,332	$8.4718	$392,515.44	$0.00	$0.00	1,296,765	$0.0037	$4,798.03	12,579	$2.6040	$32,755.72	0	$0.0000	$0.00	$430,069.19
Mar-97	46,332	$8.4718	$392,515.44	$0.00	$0.00	713,197	$0.0037	$2,638.83	6,917	$1.4805	$10,240.62	0	$0.0000	$0.00	$405,394.89
Apr-97	46,332	$8.4718	$392,515.44	$0.00	$0.00	718,774	$0.0037	$2,659.46	6,972	$1.5960	$11,127.31	0	$0.0000	$0.00	$406,302.21
May-97	46,332	$8.4718	$392,515.44	$0.00	$0.00	739,217	$0.0037	$2,735.10	7,170	$1.8795	$13,476.02	0	$0.0000	$0.00	$408,726.56
Jun-97	46,332	$8.4718	$392,515.44	$0.00	$0.00	719,755	$0.0037	$2,663.09	6,982	$2.0160	$14,075.71	0	$0.0000	$0.00	$409,254.24
Totals			$4,710,185.25		$10,813.89	8,478,024		$31,381.28	71,678		$177,789.87	10,540		$33,243.98	$4,963,394.30

RIVERSIDE PIPELINE COMPANY - TRANSPORTATION COSTS										
Month/ Year	Fixed Transport Costs (D-1Reservation) (MMBtu)	Rate	Subtotal (MMBtu)	Fixed Transport Costs (D-2 Reservation) (MMBtu)	Rate	Subtotal	Transportation (MMBtu)	Rate	Subtotal	Total Transport Costs
Jul-96	46,332	$0.5180	$23,999.98				302,237	$0.0049	$1,480.96	$25,480.94
Aug-96	46,332	$0.5180	$23,999.98				157,829	$0.0049	$773.36	$24,773.34
Sep-96	46,332	$0.5180	$23,999.98				0	$0.0049	$0.00	$23,999.98
Oct-96	46,332	$0.5180	$23,999.98				145,866	$0.0049	$714.74	$24,714.72
Nov-96	46,332	$0.5180	$23,999.98				792,166	$0.0049	$3,881.61	$27,881.59
Dec-96	46,332	$0.5180	$23,999.98				1,438,462	$0.0049	$7,048.46	$31,048.44
Jan-97	46,332	$0.5180	$23,999.98				1,451,756	$0.0049	$7,113.60	$31,113.58
Feb-97	46,332	$0.5180	$23,999.98				1,296,765	$0.0049	$6,354.15	$30,354.13
Mar-97	46,332	$0.5180	$23,999.98				713,137	$0.0049	$3,494.37	$27,494.35
Apr-97	46,332	$0.5180	$23,999.98				718,774	$0.0049	$3,521.99	$27,521.97
May-97	46,332	$0.5180	$23,999.98				739,217	$0.0049	$3,622.16	$27,622.14
Jun-97	46,332	$0.5180	$23,999.98				719,755	$0.0049	$3,526.80	$27,526.78
Totals			$287,999.76				8,475,964		$41,532.20	$329,531.96

MID KANSAS PARTNERSHIP - COMMODITY COSTS							
Month/ Year	Gas Supply Commodity Rate	Purchase Volume (MMBtu)	Subtotal	Firm & Warranty	Rate	Subtotal	Total Commodity Costs
Jul-96	$2.1105	302,237	$637,871.19	0	$0.0000	$0.00	$637,871.19
Aug-96	$2.0160	157,829	$318,183.26	0	$0.0000	$0.00	$318,183.26
Sep-96	$1.5540	0	$0.00	0	$0.0000	$0.00	$0.00
Oct-96	$1.5645	145,866	$228,207.36	0	$0.0000	$0.00	$228,207.36
Nov-96	$2.3100	716,280	$1,654,606.80	75,886	$2.4200	$183,644.12	$1,838,250.92
Dec-96	$3.0765	1,245,008	$3,830,267.11	193,454	$3.4650	$670,318.11	$4,500,585.22
Jan-97	$3.8325	1,451,756	$5,563,854.87	0	$0.0000	$0.00	$5,563,854.87
Feb-97	$2.6040	1,296,765	$3,376,776.06	0	$0.0000	$0.00	$3,376,776.06
Mar-97	$1.4805	713,137	$1,055,799.33	0	$0.0000	$0.00	$1,055,799.33
Apr-97	$1.5960	718,774	$1,147,163.30	0	$0.0000	$0.00	$1,147,163.30
May-97	$1.8795	739,217	$1,389,358.35	0	$0.0000	$0.00	$1,389,358.35
Jun-97	$2.0160	719,755	$1,451,026.08	0	$0.0000	$0.00	$1,451,026.08
Totals		8,206,624	$20,653,113.71	269,340		$853,962.23	$21,507,075.94

Missouri Gas Energy, a division of Southern Union Company
Exhibit 23-3
Case No. GR-96-450
Comparison Utilizing Williams Natural Gas FTS Rates

WNG HYPOTHETICAL - SUMMARY						
Month/ Year	Purchase Volumes	City Gate Deliveries (MMBtu)	Fixed Transportation Costs (Reservation)	Variable Transportation Costs	Gas Supply Commodity Costs	Total Costs
Jul-96	316,159	302,237	$475,843.54	$9,208.87	$922,803.63	$1,407,856.04
Aug-96	165,099	157,829	$475,843.54	$4,808.90	$471,194.93	$951,847.37
Sep-96	0	0	$475,843.54	$0.00	$0.48	$475,844.02
Oct-96	152,491	145,866	$475,843.54	$4,399.04	$621,481.85	$1,101,724.43
Nov-96	828,145	792,166	$475,843.54	$23,890.20	$2,439,120.10	$2,938,853.84
Dec-96	1,503,796	1,438,462	$475,843.54	$43,381.25	$5,856,501.66	$6,375,726.45
Jan-97	1,508,894	1,451,756	$475,843.54	$43,601.86	$6,723,753.84	$7,243,199.24
Feb-97	1,347,803	1,296,765	$475,843.54	$38,946.88	$4,029,176.74	$4,543,967.16
Mar-97	741,205	713,137	$417,502.28	$21,992.25	$1,293,609.74	$1,733,104.27
Apr-97	749,876	718,774	$417,502.28	$22,249.53	$1,370,293.02	$1,810,044.83
May-97	771,203	739,217	$417,502.28	$22,882.34	$1,855,300.34	$2,295,684.96
Jun-97	750,899	719,755	$417,502.28	$22,279.90	$1,977,157.85	$2,416,940.03
Totals	8,835,571	8,475,964	$5,476,757.44	$257,641.02	$27,560,394.18	$33,294,792.64

WNG FTS-P - TRANSPORTATION COSTS							
Month/ Year	Fixed Transport Costs (Reservation) (MMBtu)	FTS-P Rate	Subtotal	Variable Transport Cost (Commodity) (MMBtu)	FTS-P Rate	Subtotal	Total Transport Costs
Jul-96	46,332	$6.9778	$323,295.43	316,159	$0.0091	$2,877.05	$326,172.48
Aug-96	46,332	$6.9778	$323,295.43	165,099	$0.0091	$1,502.40	$324,797.83
Sep-96	46,332	$6.9778	$323,295.43	0	$0.0091	$0.00	$323,295.43
Oct-96	46,332	$6.9778	$323,295.43	152,491	$0.0091	$1,387.67	$324,683.10
Nov-96	46,332	$6.9778	$323,295.43	828,145	$0.0091	$7,536.12	$330,831.55
Dec-96	46,332	$6.9778	$323,295.43	1,503,796	$0.0091	$13,684.54	$336,979.97
Jan-97	46,332	$6.9778	$323,295.43	1,508,894	$0.0091	$13,730.94	$337,026.37
Feb-97	46,332	$6.9778	$323,295.43	1,347,803	$0.0091	$12,265.01	$335,560.44
Mar-97	46,332	$5.8464	$270,875.40	741,205	$0.0128	$9,487.42	$280,362.82
Apr-97	46,332	$5.8464	$270,875.40	749,876	$0.0128	$9,598.41	$280,473.81
May-97	46,332	$5.8464	$270,875.40	771,203	$0.0128	$9,871.40	$280,746.80
Jun-97	46,332	$5.8464	$270,875.40	750,899	$0.0128	$9,611.51	$280,486.91
Totals			$3,669,865.04	8,835,571		$91,552.47	$3,761,417.51

WNG FTS-M - TRANSPORTATION COSTS							
Month/ Year	Fixed Transport Costs (Resevation) (MMBtu)	FTS-M Rate	Subtotal	Variable Transport Costs (Commodity) (MMBtu)	FTS-M Rate	Subtotal	Total Transport Costs
Jul-96	46,332	$3.2925	$152,548.11	307,370	$0.0206	$6,331.82	$158,879.93
Aug-96	46,332	$3.2925	$152,548.11	160,510	$0.0206	$3,306.50	$155,854.61
Sep-96	46,332	$3.2925	$152,548.11	0	$0.0206	$0.00	$152,548.11
Oct-96	46,332	$3.2925	$152,548.11	148,343	$0.0203	$3,011.37	$155,559.48
Nov-96	46,332	$3.2925	$152,548.11	805,620	$0.0203	$16,354.08	$168,902.19
Dec-96	46,332	$3.2925	$152,548.11	1,462,892	$0.0203	$29,696.71	$182,244.82
Jan-97	46,332	$3.2925	$152,548.11	1,471,474	$0.0203	$29,870.92	$182,419.03
Feb-97	46,332	$3.2925	$152,548.11	1,314,378	$0.0203	$26,681.87	$179,229.98
Mar-97	46,332	$3.1647	$146,626.88	722,823	$0.0173	$12,504.83	$159,131.71
Apr-97	46,332	$3.1647	$146,626.88	731,279	$0.0173	$12,651.12	$159,278.00
May-97	46,332	$3.1647	$146,626.88	752,078	$0.0173	$13,010.94	$159,637.82
Jun-97	46,332	$3.1647	$146,626.88	732,277	$0.0173	$12,668.39	$159,295.27
Totals			$1,806,892.40	8,609,043		$166,088.55	$1,972,980.95

Month/ Year	WNG - COMMODITY COSTS						
	Gas Supply Commodity Price	Gas Supply Purchase Volume	Gas Supply Delivered Volume	Subtotal	Gas Supply Demand Price	Subtotal	Total Commodity Costs
Jul-96	$1.8313	316,159	302,237	$578,970.93	$1.0875	$343,832.70	$922,803.63
Aug-96	$1.7907	165,099	157,829	$295,635.61	$1.0634	$175,559.32	$471,194.93
Sep-96	$1.4553	0	0	$0.4753	$0.0000	$0.00	$0.48
Oct-96	$1.0575	152,491	145,866	$161,265.93	$3.0180	$460,215.92	$621,481.85
Nov-96	$2.1965	828,145	792,166	$1,819,004.82	$0.7488	$620,115.28	$2,439,120.10
Dec-96	$3.2454	1,503,796	1,438,462	$4,880,418.05	$0.6491	$976,083.61	$5,856,501.66
Jan-97	$3.7134	1,508,894	1,451,756	$5,603,128.20	$0.7427	$1,120,625.64	$6,723,753.84
Feb-97	$2.4912	1,347,803	1,296,765	$3,357,647.28	$0.4982	$671,529.46	$4,029,176.74
Mar-97	$1.4544	741,205	713,137	$1,078,008.12	$0.2909	$215,601.62	$1,293,609.74
Apr-97	$1.5228	749,876	718,774	$1,141,910.85	$0.3046	$228,382.17	$1,370,293.02
May-97	$1.6683	771,203	739,217	$1,286,576.68	$0.7374	$568,723.66	$1,855,300.34
Jun-97	$1.8259	750,899	719,755	$1,371,080.07	$0.8071	$606,077.78	$1,977,157.85
Totals		8,835,571	8,475,964	$21,573,647.02		$5,986,747.17	$27,560,394.18

Missouri Gas Energy, a division of Southern Union Company
Exhibit 23-4
Case No. GR-96-450
KPOC Adjusted Rates reflecting the KPOC rate reduction effective August 1997

	KPOC ADJUSTED - SUMMARY				
Month/ Year	City Gate Deliveries (MMBtu)	Fixed Transportation Costs (Reservation)	Variable Transportation Costs	Gas Supply Commodity Costs	Total Costs
Jul-96	302,237	$943,189.80	$66,018.24	$637,871.19	$1,647,079.23
Aug-96	157,829	$943,189.80	$23,911.35	$318,183.26	$1,285,284.41
Sep-96	0	$943,189.80	$0.00	$0.00	$943,189.80
Oct-96	145,866	$943,189.81	$19,491.46	$228,207.36	$1,190,888.63
Nov-96	792,166	$943,189.82	$129,580.18	$1,838,250.92	$2,911,020.92
Dec-96	1,438,462	$943,189.81	$281,202.38	$4,500,585.22	$5,724,977.41
Jan-97	1,451,756	$943,189.80	$324,351.35	$5,563,854.87	$6,831,396.02
Feb-97	1,296,765	$943,189.81	$226,650.59	$3,376,776.06	$4,546,616.46
Mar-97	713,137	$943,189.80	$92,921.91	$1,055,799.33	$2,091,911.04
Apr-97	718,774	$943,189.80	$96,943.25	$1,147,163.30	$2,187,296.35
May-97	739,217	$943,189.80	$107,997.62	$1,389,358.35	$2,440,545.77
Jun-97	719,755	$943,189.80	$109,044.03	$1,451,026.08	$2,503,259.91
Totals	8,475,964	$11,318,277.69	$1,478,112.36	$21,507,075.94	$34,303,465.99

KANSOK PARTNERSHIP - TRANSPORTATION COSTS										
Month/ Year	Fixed Transport Cost (Reservation) (MMBtu)	Rate	Subtotal	Variable Transport Cost (Commodity) (MMBtu)	Rate	Subtotal	Variable Transport Cost (Fuel)	Rate	Subtotal	Total Transport Costs
Jul-96	46,332	$4.5544	$211,014.46	314,203	$0.0567	$17,815.31	7,478	$2.1105	$15,782.32	$244,612.09
Aug-96	46,332	$4.5544	$211,014.46	164,078	$0.0567	$9,303.22	3,905	$2.0160	$7,872.48	$228,190.16
Sep-96	46,332	$4.5544	$211,014.46	0	$0.0567	$0.00	0	$1.5540	$0.00	$211,014.46
Oct-96	46,332	$4.5544	$211,014.46	151,641	$0.0567	$8,598.04	3,609	$1.5645	$5,646.28	$225,258.78
Nov-96	46,332	$4.5544	$211,014.46	823,529	$0.0567	$46,694.09	19,600	$2.3100	$45,276.00	$302,984.55
Dec-96	46,332	$4.5544	$211,014.46	1,495,413	$0.0567	$84,789.92	35,591	$3.0765	$109,495.71	$405,300.09
Jan-97	46,332	$4.5544	$211,014.46	1,509,234	$0.0567	$85,573.57	35,920	$3.8325	$137,663.40	$434,251.43
Feb-97	46,332	$4.5544	$211,014.46	1,348,106	$0.0567	$76,437.61	32,085	$2.6040	$83,549.34	$371,001.41
Mar-97	46,332	$4.5544	$211,014.46	741,371	$0.0567	$42,035.74	17,645	$1.4805	$26,123.42	$279,173.62
Apr-97	46,332	$4.5544	$211,014.46	747,232	$0.0567	$42,368.05	17,784	$1.5960	$28,383.26	$281,765.77
May-97	46,332	$4.5544	$211,014.46	768,484	$0.0567	$43,573.04	18,290	$1.8795	$34,376.06	$288,963.56
Jun-97	46,332	$4.5544	$211,014.46	748,251	$0.0567	$42,425.83	17,808	$2.0160	$35,900.93	$289,341.22
Totals			$2,532,173.52	8,811,542		$499,614.42	209,715		$530,069.20	$3,561,857.14

KANSAS NATURAL PARTNERSHIP ZONE 1 - TRANSPORTATION COSTS												
Month/ Year	Fixed Transport Costs (Reservation) (MMBtu)	Rate	Subtotal	Rate	Variable Transport Cost	Variable Transport Cost (Commodity) (MMBtu)	Rate	Subtotal	Variable Transport Cost (Fuel)	Rate	Subtotal	Total Transport Costs
Jul-96	46,332	$6.7760	$313,945.63	$0.1788	$8,284.16	305,169	$0.0041	$1,251.19	1,556	$2.1105	$3,283.94	$326,764.92
Aug-96	46,332	$6.7760	$313,945.63	$0.0000	$0.00	159,360	$0.0041	$653.38	813	$2.0160	$1,639.01	$316,238.02
Sep-96	46,332	$6.7760	$313,945.63	$0.0000	$0.00	0	$0.0041	$0.00	0	$1.5540	$0.00	$313,945.63
Oct-96	46,332	$6.7760	$313,945.63	$0.0000	$0.00	147,281	$0.0041	$603.85	751	$1.5645	$1,174.94	$315,724.42
Nov-96	46,332	$6.7760	$313,945.63	$0.0000	$0.00	799,850	$0.0041	$3,279.39	4,079	$2.3100	$9,422.49	$326,647.51
Dec-96	46,332	$6.7760	$313,945.63	$0.0000	$0.00	1,452,415	$0.0041	$5,954.90	7,407	$3.0765	$22,787.64	$342,688.17
Jan-97	46,332	$6.7760	$313,945.63	$0.0000	$0.00	1,465,838	$0.0041	$6,009.94	7,476	$3.8325	$28,651.77	$348,607.34
Feb-97	46,332	$6.7760	$313,945.63	$0.0000	$0.00	1,309,344	$0.0041	$5,368.31	6,678	$2.6040	$17,389.51	$336,703.45
Mar-97	46,332	$6.7760	$313,945.63	$0.0000	$0.00	720,054	$0.0041	$2,952.22	3,672	$1.4805	$5,436.40	$322,334.25
Apr-97	46,332	$6.7760	$313,945.63	$0.0000	$0.00	725,746	$0.0041	$2,975.56	3,701	$1.5960	$5,906.80	$322,827.99
May-97	46,332	$6.7760	$313,945.63	$0.0000	$0.00	746,387	$0.0041	$3,060.19	3,807	$1.8795	$7,155.26	$324,161.08
Jun-97	46,332	$6.7760	$313,945.63	$0.0000	$0.00	726,737	$0.0041	$2,979.62	3,706	$2.0160	$7,471.30	$324,396.55
Totals			$3,767,347.58		$8,284.16	8,558,181		$35,088.55	43,646		$110,319.06	$3,921,039.33

MTL-7 (15 of 18)

Month/ Year	Fixed Transport Cost (Reservation) (MMBtu)	Rate	Sub Total	Rate	Variable Transport Cost	Variable Transport Cost (Commodity) (MMBtu)	Rate	Subtotal	Variable Transport Cost (Fuel)	Rate	Subtotal	Variable Transport Cost (Excess Fuel)	Rate	Subtotal	Total Transport Cost
KANSAS PIPELINE PARTNERSHIP ZONE 2 - TRANSPORTATION COSTS															
Jul-96	46,332	$8.5088	$394,229.72	$0.2334	$10,813.89	302,237	$0.0037	$1,118.28	2,932	$2.1105	$6,187.99	0	$0.0000	$0.00	$412,349.88
Aug-96	46,332	$8.5088	$394,229.72	$0.00	$0.00	157,829	$0.0037	$583.97	1,531	$2.0160	$3,086.50	0	$0.0000	$0.00	$397,900.19
Sep-96	46,332	$8.5088	$394,229.72	$0.00	$0.00	0	$0.0037	$0.00	0	$1.5540	$0.00	0	$1.6280	$0.00	$394,229.72
Oct-96	46,332	$8.5088	$394,229.72	$0.00	$0.00	145,866	$0.0037	$539.70	1,415	$1.5645	$2,213.77	0	$0.0000	$0.00	$396,983.19
Nov-96	46,332	$8.5088	$394,229.72	$0.00	$0.00	792,166	$0.0037	$2,931.01	4,548	$2.3100	$10,505.88	3,136	$2.4200	$7,589.12	$415,255.73
Dec-96	46,332	$8.5088	$394,229.72	$0.00	$0.00	1,438,462	$0.0037	$5,322.31	6,550	$3.0765	$20,151.08	7,404	$3.4650	$25,654.86	$445,357.97
Jan-97	46,332	$8.5088	$394,229.72	$0.00	$0.00	1,451,756	$0.0037	$5,371.50	14,082	$3.8325	$53,969.27	0	$0.0000	$0.00	$453,570.49
Feb-97	46,332	$8.5088	$394,229.72	$0.00	$0.00	1,296,765	$0.0037	$4,798.03	12,579	$2.6040	$32,755.72	0	$0.0000	$0.00	$431,783.47
Mar-97	46,332	$8.5088	$394,229.72	$0.00	$0.00	713,197	$0.0037	$2,638.83	6,917	$1.4805	$10,240.62	0	$0.0000	$0.00	$407,109.17
Apr-97	46,332	$8.5088	$394,229.72	$0.00	$0.00	718,774	$0.0037	$2,659.46	6,972	$1.5960	$11,127.31	0	$0.0000	$0.00	$408,016.49
May-97	46,332	$8.5088	$394,229.72	$0.00	$0.00	739,217	$0.0037	$2,735.10	7,170	$1.8795	$13,476.02	0	$0.0000	$0.00	$410,440.84
Jun-97	46,332	$8.5088	$394,229.72	$0.00	$0.00	719,755	$0.0037	$2,663.09	6,982	$2.0160	$14,075.71	0	$0.0000	$0.00	$410,968.52
Totals			$4,730,756.66		$10,813.89	8,476,024		$31,361.28	71,678		$177,789.87	10,540		$33,243.98	$4,983,965.66

RIVERSIDE PIPELINE COMPANY - TRANSPORTATION COSTS										
Month/ Year	Fixed Transport Costs (D-1 Reservation) (MMBtu)	Rate	Subtotal (MMBtu)	Fixed Transport Costs (D-2 Reservation) (MMBtu)	Rate	Subtotal	Transportation (MMBtu)	Rate	Subtotal	Total Transport Costs
Jul-96	46,332	$0.5180	$23,999.98				302,237	$0.0049	$1,480.96	$25,480.94
Aug-96	46,332	$0.5180	$23,999.98				157,829	$0.0049	$773.36	$24,773.34
Sep-96	46,332	$0.5180	$23,999.98				0	$0.0049	$0.00	$23,999.98
Oct-96	46,332	$0.5180	$23,999.98				145,866	$0.0049	$714.74	$24,714.72
Nov-96	46,332	$0.5180	$23,999.98				792,166	$0.0049	$3,881.61	$27,881.59
Dec-96	46,332	$0.5180	$23,999.98				1,438,462	$0.0049	$7,048.46	$31,048.44
Jan-97	46,332	$0.5180	$23,999.98				1,451,756	$0.0049	$7,113.60	$31,113.58
Feb-97	46,332	$0.5180	$23,999.98				1,296,765	$0.0049	$6,354.15	$30,354.13
Mar-97	46,332	$0.5180	$23,999.98				713,137	$0.0049	$3,494.37	$27,494.35
Apr-97	46,332	$0.5180	$23,999.98				718,774	$0.0049	$3,521.99	$27,521.97
May-97	46,332	$0.5180	$23,999.98				739,217	$0.0049	$3,622.16	$27,622.14
Jun-97	46,332	$0.5180	$23,999.98				719,755	$0.0049	$3,526.80	$27,526.78
Totals			$287,999.76				8,475,964		$41,532.20	$329,531.96

Month/ Year	Gas Supply Commodity Rate	Purchase Volume (MMBtu)	Subtotal	Firm & Warranty	Rate	Subtotal	Total Commodity Costs
			MID KANSAS PARTNERSHIP - COMMODITY COSTS				
Jul-96	$2.1105	302,237	$637,871.19	0	$0.0000	$0.00	$637,871.19
Aug-96	$2.0160	157,829	$318,183.26	0	$0.0000	$0.00	$318,183.26
Sep-96	$1.5540	0	$0.00	0	$0.0000	$0.00	$0.00
Oct-96	$1.5645	145,866	$228,207.36	0	$0.0000	$0.00	$228,207.36
Nov-96	$2.3100	716,280	$1,654,606.80	75,886	$2.4200	$183,644.12	$1,838,250.92
Dec-96	$3.0765	1,245,008	$3,830,267.11	193,454	$3.4650	$670,318.11	$4,500,585.22
Jan-97	$3.8325	1,451,756	$5,563,854.87	0	$0.0000	$0.00	$5,563,854.87
Feb-97	$2.6040	1,296,765	$3,376,776.06	0	$0.0000	$0.00	$3,376,776.06
Mar-97	$1.4805	713,137	$1,055,799.33	0	$0.0000	$0.00	$1,055,799.33
Apr-97	$1.5960	718,774	$1,147,163.30	0	$0.0000	$0.00	$1,147,163.30
May-97	$1.8795	739,217	$1,389,358.35	0	$0.0000	$0.00	$1,389,358.35
Jun-97	$2.0160	719,755	$1,451,026.08	0	$0.0000	$0.00	$1,451,026.08
Totals		8,206,624	$20,653,113.71	269,340		$853,962.23	$21,507,075.94

SCHEDULE
MTL - 8

SCHEDULE
MTL - 9

Case No. GR-96-450
KPOC Adjustment
Source: DR No. 23

Gas Cost Component	Total Actual KPOC Gas Costs	Total Estimated WNG Gas Costs	Staff Adjustment
Fixed Transportation	11,955,046.17	5,476,757.44	6,478,288.73
Variable Transportation	1,478,112.36	257,641.02	1,220,471.34
Gas Supply	21,507,075.94	24,673,386.41	(3,166,310.47)
Total Costs	34,940,234.47	30,407,784.87	4,532,449.60

Calculation Of WNG Gas Supply Costs:

Month	Volumes	WNG IFGMR Index Price	Incentive Plan Benchmark Premium at 4%	Total WNG Gas Supply Price	Gas Supply Costs
July, 1996	302,237	2.18	0.09	2.27	685,231.73
August, 1996	157,829	2.14	0.09	2.23	351,284.22
September, 1996	0	1.67	0.07	1.74	0.00
October, 1996	145,866	1.68	0.07	1.75	254,857.08
November, 1996	792,166	2.50	0.10	2.60	2,059,631.60
December, 1996	1,438,462	3.68	0.15	3.83	5,505,281.77
January, 1997	1,451,768	4.30	0.17	4.47	6,492,252.83
February, 1997	1,296,765	2.81	0.11	2.92	3,789,666.04
March, 1997	713,137	1.63	0.07	1.70	1,208,909.84
April, 1997	718,774	1.70	0.07	1.77	1,270,792.43
May, 1997	739,217	1.92	0.08	2.00	1,476,068.51
June, 1997	719,755	2.11	0.08	2.19	1,579,430.37
Total Gas Supply Costs	8,475,964				24,673,386.41

MTL - 8 (1 of 1)

PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Gas Cost Adjustment Tariff Revisions to be Reviewed in its 1996-1997 Annual Reconciliation Adjustment Account.

Case No. GR-96-450
October 26, 1998
Jefferson City, Mo.

DEPOSITION OF MICHAEL WALLIS,

a witness, produced, sworn and examined on the 26th day of October, 1998, between the hours of 8:00 a.m. and 6:00 p.m. of that day at the law offices of Brydon, Swearengen & England, 312 East Capitol, in the City of Jefferson, County of Cole, State of Missouri, before

KELLENE FEDDERSEN, CSR, RPR
ASSOCIATED COURT REPORTERS, INC.
714 West High Street
P.O. Box 1308
JEFFERSON CITY, MO 65109
(573) 636-7551

and Notary Public within and for the State of Missouri, commissioned in Cole County, in the above-entitled cause, on the part of MGE, taken pursuant to agreement.

A P P E A R A N C E S

FOR MISSOURI GAS ENERGY:

GARY W. DUFFY
Attorney at Law
BRYDON, SWEARENGEN & ENGLAND, P.C.
312 East Capitol Avenue
P.O. Box 456
Jefferson City, MO 65102-0456

FOR MID-KANSAS PARTNERSHIP:

JEFFREY A. KEEVIL and BRENT STEWART
Attorneys at Law
STEWART & KEEVIL
1001 Cherry Street, Suite 302
Columbia, Missouri 65201

FOR THE OFFICE OF THE PUBLIC COUNSEL:

DOUGLAS E. MICHEEL
Senior Public Counsel
P.O. Box 7800
Jefferson City, Missouri 65102-7800

FOR THE MO. PUBLIC SERVICE COMMISSION:

THOMAS R. SCHWARZ, JR.
Deputy General Counsel
P.O. Box 360
Jefferson City, Missouri 65102

ALSO PRESENT: Dave Sommerer

SIGNATURE INSTRUCTIONS:

Presentment waived; signature requested.

EXHIBIT INSTRUCTIONS:

None marked.

I N D E X

Direct Examination by Mr. Duffy 4
Cross-Examination by Mr. Keevil 59
Redirect Examination by Mr. Duffy 91
Cross-Examination by Mr. Schwarz 101
Further Redirect Examination by Mr. Duffy 103

NOTES

MICHAEL WALLIS, being sworn, testified as follows:
DIRECT EXAMINATION BY MR. DUFFY:
Q. Good morning, Mr. Wallis.
A. Good morning.
Q. Since I know you've been through some depositions before, at least with me, I'm going to kind of skip the preliminaries and assume that you know how a deposition works and you understand that if I ask you a question that you don't understand, you should feel free to ask me to rephrase that question.
A. Okay. That's fine.
Q. Okay. We are here with regard to a Memorandum that was filed in Case No. GR-96-450 on June 1, 1998, and it bears your name as a part of the Procurement Analysis Department. And it's my understanding that the Staff has proposed a disallowance against the Missouri Gas Energy division of Southern Union Company for $4,532,449.60 in this case; is that correct?
A. That's correct.
Q. And just in general, if I understand your Memorandum correctly, the overall basis for that calculation is the difference between the transportation cost of natural gas under what I'll call the Mid-Kansas/Riverside Pipeline contract on the

one hand and the transportation cost for gas that the Staff alleges could have been obtained on Williams Gas Pipeline Central. Is that generally correct?
A. That's correct.
Q. Okay. And during the day we will probably refer to Mid-Kansas/Riverside as either Mid-Kansas or Riverside or MKP or some sort of an acronym like that, and we'll probably be referring to Williams Gas Pipeline Central as Williams, if you're comfortable with that --
A. I am.
Q. -- and understand that.
A. That's fine.
Q. The Mid-Kansas contract that is referred to in your Memorandum and that we'll probably be talking about today is for the most part a contract dated February 24th, 1995; is that correct?
A. That's correct.
Q. Can you give me your basic understanding of the basic structure of that contract with regard to the pricing of the gas commodity on the one hand and the transportation service on the other hand?
A. Well, the contract is for, I believe, 46,332 a day for transportation, and the supply is at a -- I think it's a TRANSOK index, as I recall,

105 percent of a -- well, it's actually 105 percent of a basket of indexes.
Q. With regard to the transportation rates, what is your understanding of how the transportation was to be priced or is to be priced under that contract?
A. Well, the -- there's, I think, a Zone 1, a Zone 2. There's three pieces that add up to, I think, 21.50.
Q. When you say 21.50, that's 21 what?
A. That's reservation -- that's reservation costs.
Q. No. I'm asking in more elemental terms since she's taking this down and she's not going to know what 21.50 is, whether that's $21.50 per something or other or --
A. Per unit, to reserve what you're reserving for the supply, for the transportation.
Q. Okay. So just so the record's clear, it's $21.50 per what?
A. Per MMBtu.
Q. Okay.
A. I'd have to go back and look, but you take the maximum daily quantity times the number of days in a month times the units, and it gives you a cost of, I

think it's around a million dollars.
Q. Now, is that -- is that a contract price or is that a price set by some regulatory authority for the transportation of the gas?
A. I think it originally stemmed from a KCC rate, and I think FERC has since combined all of those rates into one. But I think the contract limits how much the rate can escalate.
Q. Would it be your understanding that the transportation rates under the Mid-Kansas contract, the February 24th, '95 contract, are -- that the maximum amount under those -- under that contract is a rate set by some regulatory authority?
A. Yes.
Q. When you did the analysis for your June 1, 1998 Memorandum, was it your goal to compare on an apples-to-apples basis the citygate equivalent value for service under the Mid-Kansas contract as compared to what would have theoretically been available on the Williams system?
A. That's correct.
Q. Do you believe you did that?
A. Yeah, I think I did do that.
Q. You think you took into account all of the costs on the Williams system?

NOTES

NOTES

A. Yes. Based on a Data Request Response from MGE, we -- in DR 23 we asked MGE what the same services that they had with Mid-Kansas could have been obtained for had they contracted with Williams, and they provided a response to that which it had fixed and variable transportation charges, and I calculated an offset to those charges for gas supply.
Q. Did you do any independent investigation of the Williams prices or terms and conditions other than what you were provided by MGE in response to your Data Request No. 23?
A. You mean in terms of load-following characteristics, that type of thing?
Q. I guess my question was broader than that in the sense that did you look at some Williams tariffs? Did you talk to a Williams representative? Did you try to make some sort of an independent analysis above and beyond what MGE said Williams' price would be?
A. I looked at the DR 23 response to -- I checked to see to make sure that the Mid-Kansas gas cost and the transportation was accurate with the invoices that we had and looked at the Williams rates, and, you know, it seemed to check out.
Q. So you consulted a Williams tariff to confirm what MGE told you about the Williams rate?

A. I recall going down and taking a look at those, and it seemed like they were -- they were reasonable, the rates that were in DR 23.
Q. When you say going down and taking a look --
A. The tariff room of the Commission.
Q. Okay. So I take it from your response that you did not make an independent inquiry of Williams to make sure that -- in other words, you didn't send MGE's response to Data Request No. 23 to Williams and say please confirm that this is accurate?
A. No, I did not.
Q. And you made no contact with Williams at all in this regard?
A. That's correct.
Q. On page 2, line 17 of the direct testimony that you filed, you say that your proposed adjustment is based on MGE's response to this Data Request No. 23, is that correct, or words to that effect?
A. That's correct with regard to the transportation piece of the Data Request.
Q. Okay. I would be correct in stating that nowhere in Data Request Response No. 23 does MGE come up with a calculation of $4.532 million; is that correct?
A. That's correct.

NOTES

Q. In fact, did not MGE perform some calculations in the response to Data Request 23 showing citygate deliveries of supplies from Tight Sands contracts?
A. That's correct.
Q. To your knowledge, has the Public Service Commission deemed the Tight Sands contracts to be prudent?
A. I'm kind of hesitant to answer that. I wasn't involved in that at the Commission, and I'm just not sure.
Q. In your analysis, you are assuming that the Williams transportation rates are prudent transportation rates, are you not?
A. That's correct.
Q. Do you know what, if anything, happened to the transportation rates under the Mid-Kansas contract in August 1997?
A. It might be helpful if you could kind of direct me to what exactly you're talking about.
Q. Well --
A. I mean, I'm aware that, you know, the FERC combined all of those pieces of the pipe into one.
Q. In August '97, is it not true that transportation rates under the Mid-Kansas contract

went down as a result of a regulatory order?
A. That's possible.
Q. Do you know whether MGE received a refund of a portion of the transportation rates previously paid to Mid-Kansas as a result of that?
A. That's possible. You said August of '97. I think that's outside of the 12-month ACA period that we're looking at here.
Q. I would agree with that, yes.
Q. Do you know how much of a refund MGE received as a result of that action by a regulatory body?
A. I don't recall.
Q. Do you know if that refund has been flowed back to the ratepayers by MGE?
A. That's probably -- I don't know that now. That would be something we would confirm in the next ACA filing. It's possible that would be in there, but we haven't seen that filing as of yet. I think it's due in November sometime.
Q. Based upon your previous answers, I'm going to assume that you did not take this refund into account in your recommendation of June 1, 1998?
A. That's true.
Q. If that refund impacted or had any effect on

NOTES

the ACA period of July 1, '96 through June 30, '97, would you think it would be appropriate to take those into account?
A. If it relates -- if -- it might be. I mean, that's something that we might look at, certainly.
Q. In a response to one of MGE's Data Requests to the Staff, the Staff provided a work sheet to show how it had calculated the estimated supply cost that would be available through the Williams system. Are you with me so far?
A. Yes.
Q. On that sheet, it's our understanding that the gas supplies were valued at the Williams index price plus a 4 percent premium over the index price; is that correct?
A. That's correct. It's designed to kind of take into consideration MGE's incentive plan as approved by the Commission in GO-94-318 as a way of estimating what MGE could have or may have paid for gas supplies tied to the Williams index.
Q. Maybe you just answered that, but is that -- is what you just said the reason you used a 4 percent premium?
A. That's correct.
Q. You mentioned GO-94-318 as the Commission's

action in approving the gas cost incentive mechanism. Do you understand or do you believe, subject to confirmation, that the Commission issued that decision on January 31st, 1996?
A. I'm not sure. I mean, that's possible. Do you have something that would -- okay. Yeah. January 31st, 1996, Phase 2.
Q. Okay. Would you agree that January 31, 1996 was five months prior to the start of the ACA period being reviewed in this proceeding?
A. That's true.
Q. In the Commission's Order in GO-94-318, they indicated that premium levels for MGE above a spot index should be set such that there is a symmetrical tolerance zone around the benchmark; is that not correct?
A. That's true.
Q. Didn't the Order in GO-94-318 also indicate that the accepted premium was at 6 percent with plus or minus 2 percent resulting in no sharing for the ratepayers and the customers?
A. That could be. That sounds right.
Q. If that is correct and they set it at 6 percent plus 2 percent -- an additional plus or minus 2 percent where there was no sharing for the

ratepayers and the customers, that could mean that an 8 percent amount over an index would not have triggered a prudence review under the method established by the Commission in GO-94-318; isn't that true?
A. I'm not sure. I'd have to go back and look at those tariffs.
Q. Well, can you -- if we assume, or I will ask you to assume for purposes of my question that the 6 percent and the 2 percent are reflected in the Order in GO-94-318. Can you explain why the Staff used 4 percent instead in valuing the gas supply under this Memorandum?
A. Well, that's -- that's also kind of based on -- that was in the incentive plan, and it -- I think it actually does mirror MGE's premium levels. They're roughly 6 to 8 cents, I think, on average, 6 to 10 cents. So that's about -- you know, if you assume a $2 index, that's 8 cents. I think that's reasonable based on MGE's contracting practices.
Q. Okay. So if I understand your answer, you're saying that a 4 percent premium was used by you or the Staff or both because you think that mirrors MGE's actual experienced premiums under the gas cost incentive mechanism?

A. And it fits in with the incentive plan.
Q. Okay. A 5 percent premium would have also fitted in with the incentive mechanism, would it not?
A. That's possible. You have to -- when you're estimating gas supply cost, you have to use a number, and I chose 4 percent.
Q. A 6 percent premium also would have been allowed under the gas cost incentive mechanism, would it not?
A. Again, I'd have to go back and look at those tariffs, those incentive plan tariffs.
Q. You could have used up to an 8 percent premium and still not gone beyond the parameters set in the gas cost incentive mechanism, could you not?
A. Again, I'd have to review those tariffs. That's possible.
Q. Okay. Other than what you just told me, that you think 4 percent reflects what MGE was incurring or has been incurring, what rationale did you have for using 4 percent as opposed to some other premium?
A. Again, it seemed reasonable, and it tied in with the incentive plan.
Q. Did you make some conscious decision not to go above 4 percent because you thought anything above

NOTES

NOTES

4 percent was unreasonable?
A. My recollection is that in MGE's monitoring report, which calculates the incentive plan saved, I think there's -- the 4 percent is used in that *calculation as well.*
Q. When you say a 4 percent is used in MGE's monitoring report, give me the origin of why 4 percent is used in that monitoring report. Is that something that is voluntarily used by MGE, or is that something that is mandated by the Commission somewhere?
A. Again, I think I have to go back and look at the incentive plan tariffs. I think it's tied in with those tariffs. But the way they calculate their savings is based on 104 percent of index.
Q. Is it true that the supply portion of the February 24th, 1995 contract had a provision in it that allowed MGE to vary its daily takes of natural gas anywhere from zero MMBtu's to 46,332 MMBtu's per day?
A. That's probably correct, because in September, I think, of -- excuse me -- yeah, September of '96, MGE didn't take any gas at all from KPLC or Mid-Kansas.
Q. Do you have some general familiarity with what we referred to previously as the Tight Sands

16

agreements?
A. Very general.
Q. Isn't it true that under the Tight Sands agreements that purchases are generally more on a base load basis as opposed to a variable basis like we just talked about under the February 24th, '95 contract?
A. I'm not sure.
Q. On a general basis, isn't it true that a gas utility serving weather-sensitive loads would have greater operational flexibility under a contract that allows wide swings in daily takes as opposed to a contract that is restricted to a certain level of deliveries?
A. I'm sorry. That was very long. Could you repeat that, please?
Q. I'll let the reporter repeat that.
THE REPORTER: Question: On a general basis, isn't it true that a gas utility serving weather-sensitive loads would have greater operational flexibility under a contract that allows wide swings in daily takes as opposed to a contract that is restricted to a certain level of deliveries?"
THE WITNESS: That's possible.
BY MR. DUFFY:
Q. Would you expect that a contract which

17

NOTES

allows such wider swings would have or would command a greater premium than a base load contract?
A. That's certainly possible.
Q. Is it true that the Staff recommendation of *June 1, 1998 has not questioned the cost of capacity* which was contracted for on the Panhandle Eastern system?
A. That's true.
Q. Does that mean the Staff considers the transportation cost incurred on the Panhandle system to be reasonable and prudent?
A. That's a reasonable inference.
Q. In doing a cost comparison of total supply and transportation cost to the MGE citygate, which is a part of the analysis that Staff did for coming up with its disallowance, did the Staff perform any calculations which included the Panhandle Eastern transportation rate?
A. No.
Q. Why not?
A. As opposed to Williams, the rates between Panhandle and Williams are fairly similar.
Q. So your answer is the Staff did not perform any calculations because you believe the Panhandle and Williams transportation rates are fairly similar?

18

A. Are you speaking in terms of disallowing Panhandle costs based on what Williams' rates are?
Q. My question was, did the Staff perform any calculations which included Panhandle Eastern transportation rates, and you said no.
A. That's true.
Q. And I said, why did you not include any Panhandle Eastern trans--
A. I don't know why you'd look at Panhandle at all in a comparison of Williams and Mid-Kansas.
Q. So --
A. I'm not even sure if Panhandle -- my recollection is that Panhandle doesn't have enough capacity into Kansas City to meet 46,332 a day. Williams does.
Q. I don't want to put words in your mouth, but what I hear you saying is that an analysis or comparison of Panhandle rates in this situation would be irrelevant?
A. That's correct.
Q. Do you know, is it possible with the agreement of the producers and MGE for the Tight Sands gas to be delivered to MGE by means of the Panhandle Eastern system?
A. Could you repeat that, please?

19

NOTES

Q. Do you know whether it's possible with the agreement of the producers and MGE for the Tight Sands gas to be delivered to MGE over the Panhandle system?
A. Operationally, I don't know.
Q. If I understand the Staff's analysis correctly, you have assumed that delivery capacity under the Mid-Kansas contract of 46,332 MMBtu's per day could have been replaced by capacity on the Williams system?
A. That's correct.
Q. Regarding the 12-month period ending June 30, 1997, what data or information do you have or does the Staff possess which shows Williams would, in fact, have been able to deliver incremental capacity of 46,332 MMBtu per day in the same general vicinity as the existing Riverside interconnect point with the Mid-Kansas system?
A. Well, first of all, you have to go back to 1995, early 1995, prior to that, since the contract we're dealing with originates from, I think you said earlier, February of '95.
And we do have a highly confidential study that does -- that does indicate that Williams did have capacity and MGE could have gotten access to that capacity, and it was -- it was at a level that it

could have covered the 46,332.
Q. Tell me about this highly confidential study that you have. Who did it?
MR. SCHWARZ: Do we have to go into HC mode to discuss?
MR. DUFFY: Well, at this point, since I don't know where it came from or -- okay. Let's go off the record.
(AN OFF-THE-RECORD DISCUSSION WAS HELD.)
BY MR. DUFFY:
Q. Mr. Wallis, while we were off the record, you indicated that the highly confidential study that you talked about was a document produced by some firm by the name of Reed, R-e-e-d; is that correct?
A. That's correct.
Q. Without going into that, is it your testimony that that study would be the complete and entire basis of the Staff's position that there was 46,332 MMBtu per day available on the Williams system for the relevant time period?
A. That's the only study that I'm aware of.
Q. And so there are -- there's no other basis on which you would make that claim other than that one study?
A. That's correct.

NOTES

Q. And so, therefore, that study forms the basis of your direct testimony, page 2, line 20, where you say "given that the gas supply volumes could have been nominated and transported on WNG;" is that correct?
A. That's correct.
Q. According to the rationale the Staff is using as the basis for this disallowance to avoid or to have avoided this recommended disallowance, at what exact time should MGE have switched to transportation on the Williams system?
A. Well, I think you're talking about early 1995.
Q. Can you be a little more specific?
A. Well, rather than signing the contract with Mid-Kansas in February of '95, that they would have reached an arrangement with Williams as the study indicates that they could have for the 46,332 a day.
Q. Okay. So based on that answer, then, it's the Staff's position that MGE should not have attempted to renegotiate the 1990 contract with Mid-Kansas that it, I'm going to use the word inherited as a part of the purchase of the assets of the system; is that what your testimony is?
A. That's -- that's correct.

Q. Are you under the impression that MGE could have walked away from the 1990 contract in early 1995 with no penalty?
A. Well, the area you're going into is -- it's really the period covered by 94-101 and 94-228, and I was not the auditor that would have been involved in the ACA audits of those periods. So I'm really hesitant to answer questions on those kinds of things.
Q. Well --
A. Except other than, you know, hearsay, what I've heard from the auditor who did do those audits.
Q. Well, whether you're hesitant or not, I need to inquire about that.
A. Okay. That's fine.
Q. If you feel the need to qualify your answers in some fashion, you may certainly do so. But I want to go back and visit this point since you said that -- what I understood your answer to be was that if MGE, instead of renegotiating with Mid-Kansas, had somehow walked away from a Mid-Kansas contract and switched to transportation on Williams in early '95, we wouldn't be here today?
A. That's true.
Q. And so I want to explore your understanding of the mechanics of that theory, that if we could have

NOTES

walked away, what would have been involved. And so I want to know if it's your understanding that MGE/Southern Union, same entity, if it's your understanding that they could have walked away from the 1990 Mid-Kansas contract in early 1995 with no repercussions?

A. Well, you say 1990. I think the 1990 contract was the subject of Case GR-93-140. I think that contract -- I'd have to go back and look at that. I'm not sure if that's -- if that's -- well, is that the contract that has the regulatory out clause in it? I'm not sure in my own mind which contract we're talking about that was renegotiated in the '95 case.

I would agree with you if you're talking about the contract that has the regulatory out clause in it. There's an earlier contract that has a price cap.

Q. Let me give you my understanding of the history of these contracts in general, and then you can tell me if you think I'm wrong.

My understanding is that there was a contract entered into between Western Resources and Mid-Kansas or some entity affiliated with Mid-Kansas in January 1990. Are you with me so far?

A. That's --

-Q. You understand that?

A. That's true.

Q. And that was a sales agreement dated January 15th, 1990.

A. That sounds right.

Q. That agreement was amended as between Western Resources and Mid-Kansas, effective October 3rd, 1991.

A. That's correct. And that's the basis of the Staff's adjustment in GR-93-140.

Q. Okay.

A. That's when they removed the price cap and replaced it with the regulatory out clause.

Q. All right. That contract then --

A. The '91 contract?

Q. The '90 contract as amended by the 1991 amendment.

A. Okay.

Q. And for purposes of my questions, I'm just going to call that the '90 contract, if that's okay with you.

A. That's fine.

Q. All right. The '90 contract, then, as amended in '91, was what MGE then assumed as a part of its acquisition of the Missouri properties, effective

January 31, 1994?

A. That's correct.

Q. Okay. Now, let's go back to what -- the question I think I tried to ask before. What makes you think that in early 1995 MGE or Southern Union had some opportunity to simply walk away from the 1990 contract with Mid-Kansas as amended in October '91 and switch transportation of up to 46,332 MMBtu per day onto the Williams system with no repercussions vis-a-vis Mid-Kansas?

MR. SCHWARZ: I'll object. I don't think Staff has ever said that there would be no repercussions.

MR. DUFFY: The objection's noted, and you may answer the question.

THE WITNESS: I'm aware that there was litigation between, I think, Mid-Kansas and Southern Union and Western Resources that was settled about that time, and we've inquired of MGE. I think last Friday we faxed them a Data Request to get the Settlement Agreements, and we -- you know, it's only been a couple of days, but we haven't seen the response yet, not that I expected that we would.

You know, so obviously what came out of that would seem to be that we have this '95 agreement which

still has the regulatory out clause in it. And other than that, you know, I'm not sure until I see those what the settlement was really to, you know, to come to a final conclusion about what could have been done. And again, I wasn't the auditor who was involved in that period of time.

BY MR. DUFFY:

Q. Well, let me see if I can understand by rephrasing your answer. At the time you wrote this Memorandum on June 1, you -- well, strike that.

Your answer, if I understand it correctly, is that you think that because there was some litigation going on in early '95, that MGE could have reached some sort of a settlement as a part of that litigation to allow them to walk away from the January 1990 contract?

A. I don't know. That's possible.

Q. Why do you think that's possible?

A. Well, MGE had the consulting study done to find out if they could get the gas from Williams. Obviously there was some thought there that there was a reason for doing that or they wouldn't have done it.

I mean, I don't know. I think that it was -- it was not prudent to keep this regulatory out clause and keep this contract when the rates are

NOTES

NOTES

double what Williams' were.
Q. You were not -- you had no firsthand knowledge of the settlement negotiations involved in the litigation you were talking about; am I correct?
A. That's true.
Q. What is it that makes you think that a result such as you suggest was possible in those negotiations if you were not a party to the negotiations?
A. Well, and that's what I said earlier when I tried to qualify that your -- what your line of questioning was going to be, is that I get a lot of my information for those time periods from the people who are actually involved in those audits.
Q. And so did somebody who was involved in those audits tell you that MGE had an opportunity to walk away from the 1990 contract and didn't do that in early '95?
A. I don't know if it was put in exactly those terms, but there's some speculation that it wouldn't have been necessary to re-enter that contract --
Q. And when --
A. -- at double rates.
Q. What is the basis for this speculation that you just talked about? Whose idea was this?

A. I don't know if it was necessarily anybody's idea, you know. It's a Staff product, but I'm just saying I was not the auditor for those periods.
Q. Well, how -- somehow this concept got into your mind. I want to know how it got into your mind.
A. Through conversations, discussions.
Q. With whom?
A. With the auditor that was involved with those cases.
Q. And who was that?
A. That is Tom Shaw.
Q. So the basis of your knowledge is some information or concept that Tom Shaw has given to you?
A. My understanding of what went on in 94-101 and 94-228 was from, again, from Mr. Shaw, who was the auditor who did the audit of the recommendations, the first case I think is Western, for seven months, I think, and then the last five is MGE.
Q. Can you explain to me why there is no mention in either the Staff Memorandum of June 1 or your direct testimony of this concept that you've just related to me, that being the Staff's contention that MGE had an opportunity to walk away from a contract --
MR. SCHWARZ: I'll object to the question right now. Staff has never taken the position, has

NOTES

never stated anywhere at any time that MGE could walk away from a contract.
And to the extent that Staff has made an adjustment, it's plain that Staff believes that some other course of action could have been taken by MGE, but I don't believe that it's fair to state, I don't believe it's accurate to state that Staff's position is that MGE should have walked away from a contract.
MR. DUFFY: I'll try to rephrase the question and not use the term walk away.
BY MR. DUFFY:
Q. Can you explain to me why there is no mention in the June 1 Memorandum or your direct testimony of the concept that you've related to me that MGE had an opportunity to negotiate a different relationship with Mid-Kansas in early 1995 than the one that it did?
A. Well, there's a couple reasons. One, in the direct -- I don't have a copy of the recommendation in front of me, but in my direct testimony on page 15, it says, "Could have been obtained from Williams Natural Gas Company," and on line 20, which you referenced earlier, it says, "Given that the gas supply volumes could have been nominated and" --
Q. Hang on just a second. I'm trying to find

your --
A. Okay.
Q. You said something about page 15?
A. Page 2. I'm sorry. Page 2.
MR. SCHWARZ: Line 15.
THE WITNESS: Line 15 and line 20. As Mr. Schwarz was indicating earlier, we do indicate in direct testimony that we think that MGE could have done that.
As for the specifics of that, the recommendation and my direct testimony are basically designed to give a general explanation of how the adjustment was calculated, and I suspect that there'll be a broader, more detailed explanation in rebuttal.
BY MR. DUFFY:
Q. All right. Tell me again where in your direct testimony you make -- the Staff makes the allegation that --
A. In a general way, on line 15.
Q. Line 15?
A. Well, really lines 13 to 15. Staff believes that the contractual services which MGE received from Mid-Kansas/Riverside could have been obtained from Williams Gas Company, and then there's a similar reference on line 20. It goes on to line 1 on page 3.

NOTES

But as Mr. Schwarz said earlier, we have indicated that in a general way in testimony. We just didn't get into the specifics of it.
Q. And you believe that you were not required by any rule of the Commission to disclose your rationale in your direct testimony?
A. I think that that may be kind of a legal thing as to what, you know, what evidence standards that you have. But I think that, you know, we do reference that it could have been done, and we've calculated the damages because it wasn't done, and that is in the recommendation and the direct testimony.
Q. What calculation did you make or what assumption did you make regarding any payments that would have had to have been made to Mid-Kansas to relieve Southern Union's obligations under the 1990 contract?
A. You mean in terms of damages or something like that? I don't really understand your question.
Q. Mr. Schwarz did not like my characterization of being able to walk away from the Mid-Kansas contract, and when I use that term, it implied that we, we being Southern Union, could simply terminate our relationship with Mid-Kansas at no cost.

And what I'm asking you is, have you made that assumption in your case that Southern Union would have been able to negotiate a termination of the 1990 contract with no incremental payment at all, or have you assumed some sort of payment from Southern Union to Mid-Kansas to get Mid-Kansas to relieve Southern Union of its obligations under the contract?
A. And again, the Staff's calculation as far as the transportation charges are based on MGE's response to Staff DR 23, and I don't think that there's any -- my recollection is that there's no court settlement money in DR 23.
Q. Well, I don't at this point care what MGE said in DR 23. I'm asking you, is the basis of your assumption that Southern Union could have terminated its relationship with Mid-Kansas under the January 1990 contract with no incremental payments whatsoever to Mid-Kansas?
A. That is not in DR 23. Thus, it is not in the Staff's calculation of the adjustment.
Q. Was --
A. It's based on a comparison of transportation charges with a gas supply offset.
Q. Did you ask MGE in Data Request No. 23 what they expected the payment would be to Mid-Kansas upon

a termination of the 1990 contract?
A. No. That's not specifically -- that's not one of the items listed in DR 23.
Q. Does the response to DR 23 also indicate that it reflects a hypothetical scenario, quote, unquote?
A. I believe that's true, yeah. I think that's true.
Q. Okay. Let me see if I can summarize my understanding of your recent responses. That is, Southern Union should have used the opportunity of litigation settlements in early '95 to get out completely of the 1990 contract between Western and Mid-Kansas, and you are assuming for purposes of your recommendation that Southern Union could have done that at no cost to Southern Union; is that a fair statement?
A. That's possible. And again, I was not the auditor involved in those in that period of time.
Q. But isn't that the rationale on which you are basing this disallowance in this docket?
A. We -- as Mr. Schwarz indicated a couple times, we have not assumed anywhere or said that. We assumed they could have gotten out of the contract, and I feel like I've answered your question three or

four times now.
Q. Well, I don't understand your last answer. Maybe you can rephrase your last answer and help me understand it.
MR. DUFFY: Could you read back his last answer?
(THE REQUESTED TESTIMONY WAS READ BY THE REPORTER.)
BY MR. DUFFY:
Q. In response to my first question, you said that's possible where I tried to summarize what I thought your --
A. And I'm just saying that that is possible, but we haven't said -- I haven't said that. And again, I was not the auditor involved in that period of time.
So what went on there and what was looked at, the rationale for the adjustments that were proposed at the time, which were settled subsequently, I was not privy to those things.
Q. All right. Let me try this another way. Is it your testimony, then, that you don't care what opportunities MGE had in early '95 allegedly to get out of the 1990 contract, that that's not a basis for the $4 million disallowance in this case?

NOTES

NOTES

A. And again, we've talked about a consulting study that was performed which showed that MGE could have contracted with someone else for the volumes. So I think that's important.
Q. I'm sorry. What's important?
A. That there was another viable alternative. They were in litigation, and, again, I have not seen the settlement, what was settled to or why it was settled. That may be something that Mr. Shaw has seen.
But again, it's certainly possible that, through the litigation process in the courts, that that contract could have been terminated and subsequently renegotiated with Williams, but I don't know. I was not involved in that period of time.
Q. So is that -- is what you just said, this hypothetical alternative, this hypothetical possibility of getting out of the '90 contract, is that a basis for the Staff's recommended disallowance in this case or is it not?
A. I think it figures into the thing, yes.
Q. So it is a basis. Okay. And you -- I believe you have told me that you have no evidence at this point that getting out of the 1990 contract was a viable alternative; is that correct?

A. I indicated that I have not yet seen the Settlement Agreement. I haven't seen anything that would -- that would say that necessarily. That doesn't mean there's not anything out there. I personally have not seen it.
Q. But you have a suspicion that once you see the settlement documents in the litigation we've talked to, that they are somehow going to show you that there was this opportunity?
A. It's --
MR. SCHWARZ: I'll object to the question. It clearly calls for speculation and it's just inappropriate. This witness has repeated any number of times that he has no personal knowledge, that other staff members are more appropriate to inquire to. And I don't even think that the broad purposes of discovery call for the speculation and conjecture of a witness who's previously denied any personal knowledge.
BY MR. DUFFY:
Q. Go ahead and answer the question.
A. Could you repeat your question, please?
Q. It was something to the effect of, but you think that once you see these litigation settlement documents, you will see something that indicates that

there was this opportunity to get out of the 1990 contract?
A. That's possible. I haven't seen the document.
Q. I understand that. I don't understand a lot of other things you're saying, but I understand you haven't seen the document.
MR. DUFFY: Let's take a five-minute or ten-minute break.
(A BREAK WAS TAKEN.)
BY MR. DUFFY:
Q. Mr. Wallis, would you agree that after the January '95 renegotiation of the Mid-Kansas contract, that MGE got more favorable gas pricing terms as a result of those negotiations?
A. I think that's correct.
Q. Do you have any evidence that MGE would have been able or had the opportunity to take that favorable pricing for the gas and simply switch delivery vehicles from Mid-Kansas to Williams?
A. No.
Q. Did you read Mr. Langston's direct testimony in this case?
A. I did. It's been some time ago, but yes, I did read that.

Q. Do you have a copy of it there --
A. No, I don't.
Q. -- with you?
I'm going to give you a copy of that without the attachments.
A. Okay.
Q. And I'd like you to look at the bottom of page 6 where it says, please describe how the contracts came to be, through page 7, line 17, and I'd like you just to refresh your recollection of that and tell me whether you generally agree with his characterization of the history of these contracts or whether you have a problem with it.
A. Okay. That's accurate.
Q. Okay.
A. You said page 6, lines 14 to 20 through line 17 on page 7?
Q. That's correct.
A. I read that, and that looks -- that looks accurate.
Q. Okay. What do you know or what can you tell me concerning the contract term, that is the length of the contract, comparing the January 15th, 1990 contract and the February 24th, 1995 contract? Are those contract -- is the term of that agreement the

NOTES

NOTES

same or different?
A. I'd have to go back and look at that, but I think -- my recollection is that they both go into like 2009, it seems like.
Q. So your recollection is that --
A. I know the first one did. For the '95 one, I'd have to go back and check, but it seems like they both went to, like, 2009.
Q. Okay. Do you think that having obtained a more favorable pricing term as a result of the early 1995 negotiations, that Southern Union could also have obtained an earlier termination date for the contract?
A. That's possible.
Q. Well, do you have some evidence that that was, in fact, possible?
A. I haven't seen any documents that would -- that say that necessarily.
Q. So the answer to my question is, no, you have no documents or evidence that --
A. I personally have not seen any documents.
Q. Okay. To your knowledge, in the acquisition case where Southern Union -- excuse me -- where Western Resources asked the permission of the Missouri Public Service Commission to sell assets to Southern Union, did the Staff raise any concerns about the

assumption of the January 15th, 1990 contract at that time?
A. I don't know. Again, I was not involved in that particular case.
Q. Are you in a position to give me a description of the relative transportation provisions between the 1990 contract and the 1995 contract? Can you give me a general description of how the transportation provisions compared between those two agreements since you don't have -- you apparently don't have them with you today?
A. No. And I haven't looked at that in a while. I haven't sat down recently and put those two contracts side by side and really done that comparison.
Q. Are you generally familiar with the Stipulation and Agreement that was entered into in Case Nos. GR-94-101 and GR-94-228?
A. Yes.
Q. In there there was a provision that said that the Staff might raise additional questions regarding this contract. It says, regarding the administration of the contracts by MGE and WR, or Western Resources, in Staff's compliance and operational review for all periods on and after

NOTES

July 1, 1994.
And then it says, therefore, this stipulation is not designed to preclude the Staff from making proposed adjustments regarding issues involving the manner in which gas is actually taken under the contracts or issues involving billing matters.
Are you with me so far?
A. Right. That was -- I'm familiar with that language, and it deals with the -- I think the three -- I think there were three periods that were, in the Staff's view, that were covered by the Stipulation and Agreement, the moratorium period if you will.
Q. I want to know whether your June 1, 1998 Memorandum, whether you're claiming that the recommended disallowance there is based upon a compliance or operational reason as reflected in the language I just read to you?
A. No.
Q. So, therefore, if it's not that, it is what I'll call a prudence question?
A. Yes.
Q. Is that correct?
A. Yes.
Q. And at the risk of belaboring things, tell

me exactly what the prudence -- what the imprudent act was.
A. Entering into a contract in 1995 with Mid-Kansas that has rates almost double what there are on Williams.
Q. And the rates that you speak of are the transportation rates, not the rates for the commodity, the gas itself?
A. That's correct. And our adjustment attempts to take into consideration the benefits from the Mid-Kansas contract as far as the gas supply's concerned. That's why you see a $3 million -- about 3.2 million offset to the difference in fixed and variable transportation, which is about 7.7 million.
Q. In general, would you agree with the statement that reliability is the primary concern of all LDCs because of the relatively high proportion of weather-sensitive residential and commercial heating loads on their systems?
A. Reliability is important, but I think you also have to look at the price you're paying for that reliability as compared to other alternatives.
Q. Would you agree with the statement that, quote, diversity of supply is cited as the key to managing security and reliability on a cost-effective

NOTES

basis, unquote?
A. Diversity is important, yes.
Q. Do you agree with the premise that reliability is improved with diversity of supply sources in order to minimize the impact of possible disruption from a single supply source?
A. Yes.
Q. In the reliability report which MGE filed in Case No. GO-96-243 in response to some Commission concerns about reliability associated with implementation of its gas supply incentive plan, on about page 55 of that report dated May 1, '96, MGE said, quote, given that approximately 90 percent of MGE's current capacity is provided by WNG, Williams, MGE has explored capacity replacement and incremental expansion opportunities on pipelines other than WNG in order to obtain greater diversity, flexibility, bargaining power and peak day reliability, unquote.
Have you ever seen or were you aware that that statement was made to the Commission by MGE back in 1996?
A. I was not aware of that.
Q. In your opinion, was it reasonable in May of 1996 for MGE to be concerned about the high level of capacity commitment on the Williams system alone from

a reliability standpoint?
A. Well, as I said earlier, diversity and reliability are important concerns, but you have to weigh those against the price of competition. And when you have double rates, I'm not really sure that that outweighs some of the perceived concerns.
Q. On a hypothetical basis, if an LDC -- and I'll use that acronym for a local distribution company -- is supplied by three suppliers, if one supplier is eliminated, in general would you consider the supply to become more or less reliable as a result of that?
A. Hypothetically, if the price of supply and the transportation on those three pipelines were similar, the loss of one could be a concern.
Q. Is reliability dependent upon price?
A. By itself, no.
Q. Back to my earlier hypothetical, in looking only at reliability and not giving consideration to price, if you lose a supplier, does the supply situation become less reliable?
A. That's possible.
Q. In the alternative, if you add an additional supplier, would your supply become more or less reliable?

NOTES

A. It would be more reliable.
Q. Are you aware that in June of 1994 MGE filed documents with the Commission showing a need for additional capacity in the western Missouri area?
A. That could be.
Q. My question was are you aware of that?
A. I wasn't, but it sounds like something I've heard discussed in conversations, but I have not, you know, myself looked at that or read that at the time.
Q. In your recommendation, in the rationale underlying your recommendation, are you suggesting that 46,332 MMBtu's of capacity is not needed in the MGE marketplace?
A. No. No, we have not made that contention.
Q. So would I be correct in assuming that from the standpoint of reliability you agree that that capacity is needed in the MGE marketplace?
A. Again, we haven't said anything to the contrary. We haven't disallowed the 46,332 a day. We have a problem with where it came from, but we haven't contended that MGE didn't need that capacity.
Q. Do you understand that the transportation rates under the February 25th, 1995 Mid-Kansas contract include rates that are set by orders from the Federal Energy Regulatory Commission and the Kansas

Corporation Commission?
A. That's -- I think that's right.
Q. Are you suggesting that any of the rates that MGE paid for transportation under the Mid-Kansas contract, the 1995 Mid-Kansas contract, that were set by the Federal Energy Regulatory Commission are unreasonable?
A. By themselves, no. But when compared to the rates on Williams again, which is the basis for our whole adjustment, we have a problem with that. But as to how they were set, that -- you know, they are what they are.
Q. Would your answer be the same with regard to the Kansas Corporation Commission transportation rates?
A. Yes.
Q. You would agree, then, that the Williams rates that were established by the FERC are also just and reasonable?
A. Yes.
Q. So if I understand your testimony, the FERC rates for Mid-Kansas, FERC rates for Williams, and the KCC rates for the various other entities involved in the January '95 contract are all just and reasonable rates?

NOTES

A. Yes.
Q. And your recommendation is simply that MGE should have used the Williams rates approved by the FERC as opposed to the rates under the other contract which were approved by the FERC and the KCC?
A. That's correct.
Q. Did the Missouri Commission intervene in the KCC cases involving the establishment of the rates for Mid-Kansas?
A. I don't know. That probably would have been something that our FERC people would have been involved with, and I don't know if they did or not.
Q. You're not alleging, are you, that the KCC rates were somehow improper or unreasonable?
A. By themselves, no.
Q. You've previously told me, I believe, that you're not certain whether the Missouri Commission has made a determination as to the prudence of the Tight Sands contracts; is that right?
A. Yeah. Again, I wasn't involved in that part of the case, and I'm not sure what rulings were made or if they were formal or informal or really what the particulars are.
Q. Were you involved -- we talked briefly earlier about the Stipulation and Agreement in

GR-94-101 and GR-94-228. Do you recall that conversation?
A. I do.
Q. Were you involved in any way in the negotiations that led to that Stipulation and Agreement?
A. No, I was not.
Q. Do you know who was on behalf of the Staff?
A. Well, the three names that come to mind, Tom Shaw, Dave Sommerer, who is at the time -- he is my manager, and at the time he was Tom's manager as well, and then I believe Ken Rademan probably was involved as well. I say that was because he was the division director at the time and would ultimately have had to approve anything that was done. And there may be other parties, attorneys, I think Mr. Hack for one. Others, I'm not entirely sure.
Q. Can you give me what you understand the term prudent to mean in the context that we're discussing it today?
A. Well, I can direct you back to it. I have a copy of it here. Case No. GR-89-48. It's a --
Q. Give me that cite again.
A. It's a Kansas Power & Light Company case. It's Case No. GR-89-48. And on page 11 of that it

discusses the prudence standard, and it basically reads that the -- it talks about a Callaway nuclear power plant case, and it says that the standard is that when some participant in a proceeding creates a serious doubt as to the prudence of an expenditure, then the company has the burden of dispelling those doubts and proving that the questioned expenditure was prudent.
Based upon this standard, KPL had the burden of proving the reasonableness of its purchasing practices in October, November and December 1987 once Staff raised a serious doubt concerning the cost of gas during that period.
The Commission found that Staff raised a serious doubt. The Commission found that although there were deficiencies in KPL's purchasing procedures, those procedures were not imprudent.
And that's from page 11 of the Report and Order in that case.
Q. And so that's -- you're using that as your understanding of prudence and you're applying that test in this proceeding?
A. That's correct. That's the prudence standard.
Q. In your opinion, when should the test of

prudence be applied?
A. In this case, I think clearly when you have a decision that was made that results in transportation costs that are nearly double what a competitor's costs would have been, that that's definitely -- in my opinion, that's imprudent.
Q. So it's your testimony that in early 1995 all of the relevant parties would have known that the transportation costs were -- on Mid-Kansas were going to be essentially double?
A. Again, based on things I've heard from the people that were involved in those cases, that that was definitely the case, but that's hearsay. Again, I was not involved in those cases.
Q. You would agree that prudence -- a prudence determination should be dependent on the situation that existed at the time the decisions were made as opposed to after the fact?
A. Oh, that's true, certainly.
Q. Do you think that the Staff agreed in the 94-101 and 94-228 Stipulation and Agreement that the execution of the 1990 agreement would not be the subject of any further prudence review?
A. My interpretation of that stipulation, based on having read it, is that Staff gave up any prudence

NOTES

NOTES

adjustments to those contracts in Cases 94-101 and 94-228. I think that -- and then there's two cases after that, but all bets are off when you get to this case, Case No. GR-96-450. That's my interpretation of what that step means and what it was designed to do.
Q. So the Staff is questioning the prudence of MGE entering into the February 24th, 1995 agreement?
A. That's correct.
Q. But the Staff agreed that the January 15th, 1990 agreement was prudent or agreed not to challenge the prudency of that?
A. That's true. That's moot, because that particular contract was amended in, I think you said earlier, October of '91, and that's the contract that I believe had the price cap in it. That was later amended to substitute that for regulatory out clause, and we litigated that issue at the Commission, and the Commission awarded the Staff 1.3 million. And so I think that that contract was found to be imprudent by the Commission.
Subsequent contracts I don't think have been ruled on by the Commission. Let me back up. The 1990 contract was not the imprudent one. It was amended. It was the amended one. So the '95 contracts have not been looked at.

Q. Is the Staff making any proposal or is it going to make any proposal in this docket to eliminate MGE's PGA mechanism?
A. In the context of 96-450?
Q. Right.
A. I'm not aware of anything along those lines.
Q. Are you aware that the Staff through testimony filed by David Sommerer in another case has indicated an intention to propose doing away with the PGA mechanism?
A. I think that the testimony that you're referring to, the testimony I'm aware of is related to Laclede Gas Company, and my understanding is that it was, at least when it was written, that it was intended for Laclede.
So I'm not aware of any proposals or intention on the Staff to eliminate MGE's PGA clause in this case, in 96-450. Now, is that something we might look at in the future? That's possible. I know of no plans to do that, but that's a possibility.
Q. So your understanding of Mr. Sommerer's testimony was that he just wanted to give advance notice that the Staff would recommend the elimination of Laclede's PGA only and not the PGA of other gas companies?

A. Again, the testimony in my mind that you seem to be referring to that I'm aware of was filed in Laclede and it was Laclede specific.
Q. Do you share Mr. Sommerer's position?
A. With regard to Laclede?
Q. With regard to the elimination of the PGA.
A. Elimination of the PGA? Yeah, I think generally. I think that's probably true.
Q. You think the PGA ought to be eliminated, so we wouldn't be going through these kind of processes in the future?
A. That's possible. I mean, it would be something we'd have to look at on a case-by-case basis. But again, with regard to Laclede, I think that's -- that may be in the best interest of the ratepayer.
With regard to MGE, we really -- I haven't been involved in any discussions, at least that I recall, where it was discussed to do away with MGE's PGA. But I do think that the PGA was maybe the way to go when you had bundled service. And as Order 636 we've got off-system sales and capacity release and any number of other things that are going on, prudence reviews. When Staff wins adjustment they get appealed to circuit court.

I think it's fair to say that I think that the current PGA process needs to be either eliminated or fixed in some fashion, if it can be fixed.
Q. Well, now, was there -- I understood your previous answer to say that the Staff recommendation was Laclede specific. Is there something about Laclede that mandates or compels elimination of the PGA that's not present for other companies?
A. We've had some special instances and some special problems with Laclede that we haven't had with other companies, which I really hesitate to get into because it involves -- I think it may involve some highly confidential information.
Q. So your testimony is there are some unique things about Laclede that cause the Staff to argue for the elimination of the PGA, but those unique circumstances are not present with other companies such as MGE?
A. I think that's fair to say.
Q. If the PGA were to be considered for elimination, should that be, in your opinion, in a rulemaking proceeding or a ratemaking proceeding or some other type of proceeding?
A. I really haven't given it that much thought. I mean, it would be -- I think if you were looking at

NOTES

NOTES

one specific company, you might do it in a rate case proceeding. You know, if for some reason the Commission thought that if they were going to do away with everyone's PGA at the same time, to save time you might do it in one case potentially.
Q. What does the Commission say about the usefulness of the PGA in GO-94 --
MR. SCHWARZ: Can we go off the record here a minute?
(AN OFF-THE-RECORD DISCUSSION WAS HELD.)
BY MR. DUFFY:
Q. Do you recall what the Commission said about the need for a PGA in Case No. GO-94-318?
A. I'm aware that the Commission has indicated that they think the PGA should be left the way it is, it's needed. I'm not sure if it was in the context of that particular case or not. I think the circuit court has, I think, declared the PGA to be legal.
Q. If you change your answer to Supreme Court, then --
A. Okay.
Q. -- then I'll agree.
A. I'll be happy to do that.
Q. Okay. Let's try what probably will be the last question here, Mr. Wallis. Are you familiar with

the fact that each quarter Williams Natural Gas files for recovery of gas supply re-alignment costs pursuant to FERC Order 636?
A. That's true.
Q. Are you aware that that cost is allocated among the Williams customers on the basis of billing determinants?
A. That could be.
Q. Are you aware that out of that total MGE gets an allocation of roughly 40 percent?
A. I wasn't aware of that.
Q. Are you aware that the amount --
A. Well, I wasn't aware of the percentage. What you're saying seems reasonable, but is it 40 percent or not, I don't recall seeing that anywhere.
Q. Are you aware that the GSR cost for MGE for the last quarter of 1996 was approximately $1.12 million?
A. Again, I don't recall if that's -- that's certainly possible, but the number, I'm not sure what the number is.
Q. Did you take into account in your calculations that you did for purposes of your June 1, 1998 Memorandum any of these GSR costs on the Williams

NOTES

system?
A. No. Well, let me back up. In the response to DR 23, I don't recall seeing those type of costs in the response to DR 23.
Q. Do you recall asking for gas supply re-alignment costs in your question in DR 23?
A. I don't think that was one of the -- well, can I see that?
Q. (Indicating.)
A. Yeah. That's not listed in the ten items.
Q. So just for purposes of clarity, then, you would agree that GSR costs on Williams were not used by you in figuring your disallowance?
A. That's correct. And let me add something. Depending on how those costs are allocated back to MGE, this extra 46,332 that we're contending MGE could have gotten, I'd have to -- I'd have to see if that would have been taken into consideration when those refunds came back.
I mean, if those are dated to times prior to 1995, the allocation's already been made, and it wouldn't make any difference. So I would kind of qualify my answer by saying that.
MR. DUFFY: I think that's all the questions I have of this witness at this time.

MR. KEEVIL: We will have some. It might be a good idea to take a break.
(A BREAK WAS TAKEN.)
CROSS-EXAMINATION BY MR. KEEVIL:
Q. Good morning, Mr. Wallis.
A. Good morning.
Q. Are you the Staff member who was responsible for Staff's responses to Mid-Kansas/Riverside's Data Requests to Staff?
A. Yeah. I put the responses together, and they were reviewed by Mr. Sommerer and Mr. Schwarz.
Q. Okay.
A. But the original crafting, which wasn't changed very much, was my own.
Q. So you agree with the responses? You've seen all of the responses and you agree with those responses?
A. Yeah.
Q. Okay. Did you also see the, I believe it was called -- I don't know if it's actually got a title to it. Did you see the explanatory material which accompanied the Data Requests?
A. Yes.
Q. So you're aware, then, that the Data Requests -- pursuant to paragraph M of the explanatory

NOTES

material, that the Data Requests were intended to be of a continuing nature requiring you to serve timely supplemental answers to the Data Requests?
A. Yes.
Q. You mentioned during questions from Mr. Duffy, and I'm not going to go into anything highly confidential here, but this Reed consulting study.
A. Yes.
Q. Do you recall those questions?
A. Yes.
Q. Do you have a copy of the responses to -- Staff's responses to Mid-Kansas/Riverside's Data Request with you?
A. I do not.
Q. Would you read into the record DR No. 45? First of all, I guess if you want to look at that and confirm that those are, in fact, your responses to Mid-Kansas/Riverside's Data Requests?
A. They are.
Q. Okay. Would you read aloud DR No. 45.
A. Describes Staff's understanding of the availability of firm transportation capacity on WNG system into Kansas City, Missouri at existing delivery points from WNG's system to MGE from January 1st, 1990

through December 31st, 1997.
Q. And then would you read Staff's response.
A. Staff does not have any documents which would show whether or not WNG capacity was available since Western Resources to Staff's knowledge did not take bids or make any inquiries in this regard. MGE, to Staff's knowledge, also did not make any inquiries in this regard. MGE, to Staff's knowledge, also did not make any inquiries since they had already assumed from WRI the MKP/RPC contractual obligations.
Q. Now, if you would please, read Data Request No. 46.
A. Provide copies of all documents relating to describing or -- excuse me. Provide copies of all documents relating to, regarding or describing the availability of firm transportation capacity on WNG system into Kansas City, Missouri at existing delivery points from WNG's system to MGE from January 1st, 1993 to December 31st, 1997.
Q. And the Staff's response?
A. It says, see Staff's response to MKP/RPC DR No. 45.
Q. Which you just read, correct?
A. Right.
Q. Now, my question, I suppose, is, based on

your responses to those Data Requests and your earlier statement that you're aware that you were under continuing obligation to supplement your responses, when did you first become aware of this Reed study that you mentioned in response to Mr. Duffy?
A. Well, we were generally aware that in the 94-101 and and 94-228 cases that we had some documents that talked about capacity on Williams, but we couldn't find the consulting study. So we thought maybe we lost it or it was misplaced, maybe it was in Kansas City.
And when we did a file search, we uncovered it, and I think the day after we found that, that we had actually had a copy of the study, I think Mr. Schwarz contacted Brent, I believe, and made him aware that we did have a copy of the document.
So it was an oversight on our part, which we certainly apologize for.
Q. Was that document ever provided to either Mr. Stewart or myself or anyone on behalf of Mid-Kansas/Riverside, that you're aware of?
A. I don't know. I don't know if you have it from a prior time period or not, but it is a highly confidential document, and there are, I think, rules to viewing that kind of thing. But again, we did make

you aware that we had the document after we found it.
Q. So your testimony or your -- not your testimony. Your statement here today is that someone on Staff's behalf made someone on our behalf aware of that specific document being in possession of Staff?
A. That's my understanding.
Q. Based on your discussion?
A. Yeah, and when we found it, because we were aware of the Data Request, and it said we didn't have any copies of the document. Well, when we discovered we did have a copy of the document, we wanted to make you aware that we did have it.
Q. And your statement that we were made aware of the document is based on what someone else on staff told you, correct?
A. That's correct.
Q. Again, during the questions from Mr. Duffy, I believe you indicated that it is your position that MGE -- when I say MGE, by the way, that's Missouri Gas Energy. You understand that, correct?
A. Yes.
Q. -- that MGE should have switched to Williams in February, in the February '95 time frame rather than sign the February '95 contract with Mid-Kansas; is that correct?

NOTES

NOTES

A. I think that's what I indicated to Mr. Duffy.
Q. You stated also, I believe, in response to Mr. Duffy that the rationale for your proposed adjustment would be further described, I believe, in your rebuttal testimony vis-a-vis how it has been described in your direct testimony and in your June '97 recommendation; is that correct?
A. Could you repeat that, please?
Q. I believe you stated during questioning from Mr. Duffy that the rationale for Staff's adjustment will be further explained in Staff's rebuttal testimony?
A. Sure. That's correct.
Q. Okay. Are you aware, Mr. Wallis, you said you have read the explanatory material accompanying the Data Request sent to you from Mid-Kansas/Riverside.
One of the paragraphs of that explanatory material states that when asked for a rationale, explanation, basis or justification for a position, shall mean to relate as completely as possible each and every act, omission, incident, event, condition, circumstance or thing directly or indirectly concerning the subject matter.

A. Yes.
Q. During questions from Mr. Duffy earlier, I believe you stated that you believe that as a result of the litigation, the settlement of the litigation which was going on, that MGE should have settled in such a way that they were free from the Mid-Kansas contract?
A. That's correct.
Q. If I could have you read Mid-Kansas/Riverside DR No. 36 to Staff and Staff's response.
A. Please provide Staff's rationale for its MKP/RPC pipeline adjustment and identify the staff members involved with the formulation of such rationale.
Q. Okay. And Staff's response?
A. MKP/RPC's total costs are higher than WNG's total costs as shown in the Staff's work paper provided in response to MKP/RPC DR No. 1 and MGE's response to Staff DR No. 23. Please see Staff's response to MKP/RPC DR No. 19C for a list of staff members.
Q. Okay.
A. Can I take a look?
Q. Sure. Actually, I wasn't going to ask you to, but you may.

NOTES

A. Okay.
Q. Now, where in this response to DR No. 36, which it asks for your -- Staff's rationale for the adjustment, does that say anything about settlement of the litigation which you've described earlier to Mr. Duffy?
A. It doesn't. It talks about the -- and I think that's kind of -- the adjustment that's calculated assumes that those volumes, those services could have been obtained from Williams and that MGE should have contracted with them. It doesn't say that, but I guess when I answered the DR, the adjustment assumes that that was possible.
Q. I believe you said during questioning from Mr. Duffy that Staff's calculation of the transportation rates under the hypothetical DR No. -- Staff DR No. 23 to MGE was based on MGE's response to that Data Request; is that correct?
A. That's correct.
Q. You stated in response again to questioning earlier from Mr. Duffy that the prudence standard -- I may misstate this. Correct me if I'm wrong.
I believe you said that the prudence standard which you are using in this case is from Case No. GR-89-48; is that correct?

A. Which mentions another case, which is the Callaway -- the Callaway nuclear case.
Q. Now, again, in the Data Request which was sent to Staff from Mid-Kansas Riverside, Data Request No. 40 asks for you to describe and explain any and all applicable standards, criteria, thresholds or any other principles that guide the Staff in an examination of the prudence of purchasing decisions.
And Staff's response was, please see the Commission's Report and Order in Case No. GR-93-140 which provides guidance with regard to prudence.
A. That's true. That's another case that -- and I think if I recall in that case they mentioned one or both of these other cases, but it -- it all kind of comes from the same place, which is the Callaway case.
Q. Okay. Is it your belief, then, that you are applying the prudence standard set forth in Case No. GR-93-140?
A. Yes.
Q. You'll have to forgive me, Mr. Wallis, if I lose my voice halfway through this.
You stated again in response to questioning from Mr. Duffy that the Williams costs which MGE would have incurred had they switched from their contract

NOTES

with Mid-Kansas to Williams were known in the February 1995 time frame when the contract between MGE and Mid-Kansas was executed; is that correct?
A. Based on discussions that I've had with Mr. Shaw, he was looking at a comparison of Mid-Kansas to Williams at the time, and I believe that's -- that's how he derived his adjustment that subsequently was part of the settlement, part of the $4 million settlement.
Q. Now, you lost me there. I'm talking about just your adjustment in this case. You began talking about Mr. Shaw.
A. Well, I think the adjustment in this case is related to and can be tied back to the contracting decisions that were made in the case that Mr. Shaw did the audit for, and what I thought you were asking me is, at the time, because, you know, we don't want to do -- we don't want to look at things in hindsight.
At the time Mr. Shaw did do a comparison of Williams with Mid-Kansas and found that there was a very large differential between the two, even back in 1995.
Q. Okay. Just so I'm clear, the time that we're talking about here is February 1995?
A. That's when the contract was negotiated.

Q. So you believe that Williams' costs were known in February of 1995?
A. The costs in February 1995 were [redacted]. No one knew what the costs were going to be in this period, but in February of 1995 there was a very large differential, and there still is.
Q. So in February of 1995, were the costs, Williams' costs associated with this ACA period, which I believe was the '96-'97 ACA period. Known and available to MGE?
A. No.
Q. You stated earlier, I believe, that -- well, let me just ask you this. What did Staff use to estimate the gas supply costs associated with Williams' transportation, the gas supply portion?
A. The gas supply offset? We used the actual volumes which MGE purchased from Mid-Kansas/Riverside that were delivered to the citygate times a Williams index plus a 4 percent premium.
Q. Okay.
A. And that price was then multiplied by the volumes to produce the estimated gas supply costs.
Q. Okay. This Williams index you mentioned, what Williams index?
A. Inside FERC, first of the month inside FERC.

Q. Why did you use that for the price?
A. It's a published index. It's a -- it gives you a price for the month. It seemed like the proper -- the proper price to use for gas supply costs to be transported on Williams.
Q. Are there other prices that you are aware of that you could have used?
A. Such as, you mean like daily prices?
Q. Daily basis, MGE's weighted average prices?
A. That's -- yeah, you could have.
Q. And I guess my question is, why did you choose that price other than the fact it's a published price?
A. Well, most gas supply contracts are tied to -- that we are looking at are tied to first of the month index, and, you know, that seemed a reasonable way to calculate it.
Q. Does Staff always use that index in these comparisons?
A. Well, this is -- this is really the first time that this has come up. It's really the first time that we've calculated a -- that we've used an index, a Williams index price to estimate gas supply costs to use as an offset to a differential for transportation.

But I think it's a reasonable way to do it, and if I had the same issue in another case, I would do it the same way.
Q. As I understand it, it is your position, Mr. Wallis, that MGE could have received the same services it received from Mid-Kansas/Riverside from Williams; is that correct?
A. That's correct. And that's what the DR -- that's what DR No. 23 asked MGE, is what could those services have been provided for, assuming that it was the same services, and they responded to that.
Q. Well, let me follow up on that. The question was assuming they were available, correct?
A. Correct.
Q. Are you aware of what maximum and minimum delivery pressures could have been provided under the contractual services that you say would have -- could have been provided by Williams?
A. I haven't looked at that.
Q. Are you aware of what hourly and daily load following characteristics would have been available under the services you say could have been obtained from Williams?
A. I haven't looked at that.
Q. What term of contract would the contract

NOTES

NOTES

have been for these services that you say could have been obtained from Williams?
A. You mean what the term would have been had they -- well, Williams normally I think about five years. Transportation contracts run for five years.
Q. Okay. And did you --
A. Three to five years.
Q. So you're saying, then, that MGE should have negotiated a three to five-year contract with Williams?
A. Given what I know of MGE's contracting practices and other companies that use Williams, that's a fairly standard length for a transportation contract is about three to five years.
Q. Do you believe MGE would have been able to obtain a five-year contract from Williams at first of the month index prices?
A. That's certainly possible, yes.
Q. Do you believe that the delivery and receipt points available under the contractual services that you believe MGE could have obtained from Williams would have been the same as under the contract with Mid-Kansas?
A. Would they have used the same delivery points? I think probably it would be the same. I

mean, they would have come -- it would have come into Kansas City, Missouri.
Q. If I could show you -- I'm not going to ask you to read all of this into the record, but show you MKP/RPC Data Request No. 48 to Staff. Take a look at that, if you would, Mr. Wallis.
A. You want me to read this?
Q. Well, read it to yourself first.
A. Okay.
Q. Okay. Now, among several other things here, part of this -- this question is broken down into parts A through H actually.
A. Uh-huh.
Q. And you've answered part A, and each of your responses to the other parts says see the Staff's response to part A.
A. Uh-huh.
Q. And I'd like for you to show me where in your answer to part A any of those other matters shown in items B through H are covered in your answer to part A.
A. Well, again, I think it is applicable to the answer under A, is that, you know, when we asked MGE this Data Request, we asked them to assume that they could have provided the same services as the services

actually provided, and they answered the Data Request.
Q. So --
A. But, I mean, those types of questions, we're not going to know for sure because the contract -- they didn't enter into a contract with Williams. They kept the contract with Mid-Kansas. So we're not going to know, you know, what would have happened exactly.
Q. Had MG--
A. There's no -- there's no actual real document to look at.
Q. Are you finished?
A. Yeah.
Q. Had MGE responded that the same contractual services received from Mid-Kansas would not be available from Williams, would you have believed that?
A. Well, that's kind of a hypothetical, but, I mean, they -- I would have to assume that they believe that was true. I mean, I don't assume that when companies answer DRs that they -- that they're not entirely truthful when they answer.
Q. So the basis for your belief that the same contractual services MGE received from Mid-Kansas were available from Williams is the fact that MGE did not indicate otherwise in its response to Staff DR No. 23?
A. That's part of it, and again there's a

consulting study that indicates that the 46,332 was available from Williams.
Q. Okay.
A. Now, the specifics, the specifics of that, who knows. The contract wasn't executed with Williams.
Q. So -- and I apologize here. Are you saying that you don't know whether the same contractual services MGE received from Mid-Kansas under the contract we're dealing with here today were available from Williams?
A. I think they were. Again, there's a consulting study.
Q. When did you --
A. And I think those --
Q. When did you first see that consulting study?
A. Probably back in '95 sometime. I mean, we had the document. It was one of those deals where -- and I -- you know, it was -- we're generally aware there were some alternatives, but I hadn't seen the document for a long time. I didn't even think we still had it.
We generally keep documents from ACA cases for about three years, and it's unusual to find

NOTES

NOTES

documents that old. But obviously we kept it due to the continuing nature of this issue. But yeah, I had not seen it until recently, the actual document.
Q. So your recommendation which initiated this case was not based on that consulting study, correct?
A. It was based on conversations that there was -- there were alternatives. Had we not found the document, we probably would have asked a DR to get it again. But again, we found it recently, and when we found it we made -- we made the parties aware that we had it, that we had a copy of the document.
Q. When you say recently, you mean after the filing of your direct testimony?
A. That's correct.
Q. Have you ever negotiated a natural gas supply contract, Mr. Wallis?
A. No, I have not.
Q. And have you ever negotiated a natural gas transportation contract?
A. No, I have not.
Q. Rather than have you read these into the record, Mr. Wallis, I'm going to read you a DR and your response, and if you think I'm misrepresenting it, let me know. This is DR No. 54 from Mid-Kansas/Riverside to Staff. Asks Staff to identify

the fixed and variable transportation costs incurred by MGE or its predecessor for service from WNG, Williams, during the ACA period covering 1989 through 1996 essentially.
Your answer is, the first four ACA periods mentioned are before the Procurement Analysis Department was in existence and they're not in Staff's possession. The invoices and supporting documentation for the last three ACA periods mentioned are available for review at the Staff's offices.
A. That sounds accurate.
Q. Now, ACA cases and ACA reviews were done by the Staff before the Procurement Analysis Department came into existence?
A. Members of the accounting department would have performed those audits, that's correct.
Q. And these Data Requests were directed to Staff, which would include the accounting department not just procurement analysis?
A. That's correct.
Q. Are you saying, then, that the accounting department did not keep the material from the first four ACA periods mentioned in that Data Request?
A. As far as I know, that those -- those early cases prior to the Procurement Analysis Department are

not in existence.
Q. Did you do any investigation on the Staff to determine whether material was available from the accounting department?
A. You mean did we call?
Q. I guess my question is, when these Data Requests were sent to Staff, and if something wasn't within the possession of the members of the Procurement Analysis Department, was any effort made to determine whether information or documents were available, were in the possession of other staff members?
A. I didn't call anyone. I -- no. I didn't call anybody.
Q. So the Staff may or may not have material which was requested by Data Request, just staff outside the procurement analysis department, correct?
A. That's possible. I strongly doubt it, but it's possible. And those records are generally kept in our area. They weren't there. So I would assume they're not available.
Q. If I could show you the Data Request 56 from Mid-Kansas/Riverside to Staff. I'd ask you, after you've had a chance to review it, read the request into the record, if you would.

A. You want me to read the answer, too?
Q. Yes.
A. Okay. Please identify I, the amount of costs incurred by MGE during the ACA period under review in this case under the Riverside 1 firm gas transportation service agreement referenced in Staff's responses to DR 33A; and, secondly, the amount of gas transported by MGE during the ACA period in this case under the Riverside 1 firm gas transportation service agreement referenced in the Staff's responses to DR 33A.
The answer is, please see MGE's response to Staff DR No. 23 and Staff's MKP/RPC adjustment work paper.
Q. Okay. Does that -- does your response there, Mr. Wallis, mean that you believe that MGE incurred costs under the Riverside 1 firm gas transportation service agreement during the ACA period under review in this case?
A. That's how I interpreted your question. Is that what you were asking me was what were the -- what were the costs? What did MGE pay Mid-Kansas/Riverside for gas supply and transportation?
And based on my interpretation of what you were asking, those amounts are referenced in MGE's

NOTES

NOTES

response to DR 23, which ties back exactly to the invoices, the Mid-Kansas/Riverside invoices, and those amounts appear on the Staff's work paper as well.

Q. Okay. I suppose my question really, Mr. Wallis, is under what contract?

A. The '95 contract.

Q. When you say the '95 contract, how many contracts, to your knowledge, were executed in February of '95 between MGE and Riverside/Mid-Kansas?

A. Seems like there were two.

Q. And are you --

A. There's a gas supply piece and transportation piece.

Q. So your understanding is that MGE transported gas during the ACA period under review in this case under the Riverside 1 firm gas transportation contract?

A. Under the '95 contracts.

Q. There's a -- I'm distinguishing here between the Mid-Kansas. There was a --

A. If that's -- if that's what those '95 -- I have to go back and look at that. If that's what those '95 contracts are, then that's -- then I agree with you.

Q. You agree with me that what?

A. That the way -- that it's the Riverside 1, whatever is written on your Data Request, the two contracts you referred to.

Q. That Data Request only refers to one of the contracts that were executed in '95. And I guess my question to you is, were the costs MGE incurred during this ACA period which is under review in this case pursuant to its contract with Mid-Kansas Partnership, which I believe has been referred to as the MKP 2 interim firm gas sales agreement, or were MGE's costs incurred pursuant to its contract with Riverside which was executed in February '95, which is known as the Riverside 1 firm gas transportation service agreement, or were there some costs incurred under each of those contracts?

MR. DUFFY: Can we go off the record a second?

(AN OFF-THE-RECORD DISCUSSION WAS HELD.)

MR. KEEVIL: Would you repeat my last question?

(THE REQUESTED TESTIMONY WAS READ BY THE REPORTER.)

THE WITNESS: I think the answer is yes. There's a gas supply piece and a transportation piece, and one contract refers to the other, but that's --

NOTES

yes, I think is the answer.

BY MR. KEEVIL:

Q. Which contracts were they, they being MGE, actually taking service under during the ACA period we're reviewing in this case?

A. The interim gas supply.

Q. The MKP?

A. I'd have to go back and look at it to refresh my mind with what they're actually called, but I know the contracts are -- in February 1995, those are the contracts that these costs are related to.

Q. Have you read both of these contracts that we're referring to?

A. Yeah. I believe I looked at those. It's been a month, month and a half ago. Yeah, I did look at those.

Q. So it was after you prepared your --

A. No. I looked at them prior to that, too, but the last time I looked at them was --

Q. When was the first time you read the MKP 2 interim gas sales agreement?

A. I think I looked at that back in Case GR-96-78, was the first time I looked at it, which was the first MGE case I was actually involved in, which was the last year of the moratorium period.

Q. In GR-96-78, had Staff proposed an adjustment regarding the '95 contracts?

A. No, because we believed and still believe that that was the last year of the moratorium period in the stipulation.

Q. Staff proposed no adjustments arising out of those contracts?

A. No.

Q. Mr. Wallis, are you familiar with a $12,787.60 adjustment for Riverside demand charges which was stipulated in Case No. GR-96-78?

A. Yes, I am.

Q. Did that adjustment arise out of the '95 contracts?

A. That was based on the rates -- I think that we had seen a rate of .518 for Riverside and we --

Q. If I can interrupt you, .518 what?

A. Per unit. It was -- I can't remember exactly. It was a charge for the Riverside piece of the reservation related. And we saw a -- where that had been the rate, and I think MGE had paid something like .5487, if I recall correctly.

And we had inquired as to why there was a difference in those rates, and MGE indicated that that was -- under the contracts there was a cap of some

NOTES

sort on how high that could go, and there was a dispute over that, and we ended up dropping that, as I recall.

Q. So I guess I'm back to my question, Mr. Wallis. That adjustment did relate to these '95 contracts, correct?

A. That's correct. Not the prudence of the contracts, the rate that MGE was paying.

Q. Mr. Wallis, do you know whether take-or-pay costs incurred by MGE during the ACA period under review in this case as a result of purchasing transportation on Williams' system are included in Staff's calculation of Williams' total price?

A. Direct bill take-or-pay costs would not be in the Staff's calculation. And again, as I indicated to Mr. Duffy earlier, it may be that the take-or-pay costs that MGE is paying to Williams, the allocation of those costs was determined years ago, and those -- those are -- those have already been paid and allocated and wouldn't have any bearing on this case.

Q. Was that -- did you say they may not have any bearing on this case or --

A. They shouldn't. As I recall, this issue came up in GR-93-140 with regard to take-or-pay and transition costs not being included in the Staff's

recommendation, and our position was basically still that those costs, they would have been paid anyway. MGE would have paid, or Western at the time would have paid those charges to Williams regardless of what happened.

Q. Not all take-or-pay costs are direct billed though, correct?

A. That's correct.

Q. Do you know whether transition costs are incurred by MGE during the ACA period under review in this case as a result of purchasing transportation on Williams' system are included in Staff's calculation of Williams' total price?

A. Again, similar to take-or-pay, they wouldn't be in the Staff's calculation.

Q. And likewise, I assume they would not be included in Staff's calculation of the price which would have been paid had MGE taken the same contractual services it took from Mid-Kansas had it taken them from Williams; is that correct?

A. That's correct. And again, I'm not sure that's relevant to this case either given that those are transition costs that Williams would have incurred and MGE would have paid regardless of what happened with the 46,332.

Q. The amount that MGE would have paid Williams would not vary depending on the volume that they transported on Williams?

A. Again, those are allocated based on the transition that they would have undergone in 636. I have to go back and look at that, but I'm not sure that's really relevant to this case either.

Q. Do you know whether the costs incurred by MGE during the ACA period under review in this case associated with upstream supply imbalances are included in Staff's calculation of Williams' total price?

A. I don't recall seeing those in MGE's response to DR 23. Again, that is -- MGE does not incur a lot of upstream imbalances. They've been pretty tight with regard to that, and I don't think that they would have incurred any or maybe only slightly more than they would have if they had the 46,332. So I don't think that's really relevant either.

Q. Do you know what that figure would have been?

A. No.

Q. Do you know whether the cost of balancing overrun charges incurred by MGE during the ACA period

under review in this case as a result of purchasing transportation from Williams are included in Staff's calculation of Williams' total price?

A. Again, I don't recall seeing that in DR 23, which is what the Staff used to compare to Mid-Kansas' actual costs.

Q. So in the calculation of transportation on Williams, Staff simply relied on MGE for its calculations?

A. We asked MGE to give us an estimate of what those components would have cost had they contracted with Williams, and they gave us transportation rates and costs, and that's what we used, yes.

Q. Do you have a copy of the Reed Consulting report you referred to earlier which you could provide me with sometime today?

MR. SCHWARZ: My understanding of the protective order is that HC materials not be copied, and if I have mis-- and that's -- it's certainly available for inspection, as I indicated to Brent some time ago.

MR. DUFFY: Well, let's go off the record a second.

(AN OFF-THE-RECORD DISCUSSION WAS HELD.)

BY MR. KEEVIL:

NOTES

NOTES

Q. Mr. Wallis, I believe you read previously one of the Staff data responses which referred to the staff members who had been involved in this case, and it was DR No. 19, and the response from Staff was Mike Wallis, Dave Sommerer, Tom Shaw, Tim Schwarz and Bob Shallenberg. Do you recall that?
A. I recall that.
Q. Then one of our follow-ups -- well, I guess first of all let me ask, are those five people the only staff members, to your knowledge, who have been involved in this case, this case being GR-96-450?
A. Yes.
Q. So no other staff personnel have been consulted regarding this case, to your knowledge?
A. Well, actually, at the time that the Data Request was submitted, that was accurate. Recently, literally in the last three or four days, two other staff members have been involved in some of the discussions. I'm not sure if they're going to file any testimony or anything like that.
Q. Who are the other two staff members?
A. Jim Busch and Randy Flowers.
Q. When he was working at the Commission, Cecil Wright was never consulted regarding this case?
A. Not that I recall.

Q. Same question for Gordon Persinger?
A. Again, not that I recall.
Q. Same question for Carmen Morrissey?
A. Not to my knowledge.
Q. In follow-up to that Data Request, you were asked, if I can find it, what each of those listed staff members were responsible for, DR No. 50. Would you read question No. 50 there.
A. In reference to the staff members listed in Staff's response to MKP/RPC DR No. 19C, please specifically identify what each listed staff member was responsible for in this case. Mike Wallis was responsible for the calculation of Staff's MKP/RPC adjustment in this case.
Tom Shaw was responsible for a discussion of the history of the MKP/RPC contracts. Dave Sommerer was responsible for the management review of the Procurement Analysis Department work product. Tim Schwarz was responsible for the legal review of the Procurement Analysis Department work product. And Bob Shallenberg was responsible for the management review of the Utility Services Division work product.
Q. Okay. Now, my first question then on this is, what do you mean when you say the management review of the Procurement Analysis Department work

product, which is what you have Dave Sommerer being responsible for?
A. Well, obviously Mr. Sommerer, he reviews all the testimony, all the recommendations, and the oversight of the rationales for the adjustments and that type of thing. It's a management function.
Q. Okay. Essentially the same question with regard to Bob Shallenberg. You have him listed as being responsible for the management and review of the Utility Services Division work product. What do you mean by that?
A. It's the same thing. As division director he's aware of the Staff recommendations and, you know, what his various departments are working on and that type of thing.
Q. But as far as the creation of the adjustment itself, that was your responsibility?
A. That's correct.
Q. And you weren't told by any of these people listed here, do this, make this adjustment; it was your decision to make the adjustment?
A. That's correct.
Q. During what you refer to as the management review process, either Mr. Sommerer or Mr. Shallenberg, anyone else in this process that

you've described here of review, were there any disagreements among the members of the staff involved in this case regarding this adjustment?
A. You mean in terms of how it was calculated, for instance, or what exactly are you --
Q. Well, okay. Let's go with how it was calculated.
A. Not that I remember.
Q. How about whether it should be proposed at all?
A. Not that I recall.
Q. Were there any other types of disagreements that you do recall?
A. No.
MR. KEEVIL: I think that's all. Thank you, Mr. Wallis.
THE WITNESS: You're welcome.
MR. MICHEEL: I have no questions.
MR. DUFFY: I have a few more, if you want me to ask mine before you go.
MR. SCHWARZ: Go ahead.
REDIRECT EXAMINATION BY MR. DUFFY:
Q. Mr. Wallis, I want you to tell me your entire complete basis for assuming that the gas itself that MGE obtained under this 1995 contract could be

NOTES

NOTES

severed and treated totally differently under a different contract from the transportation aspect.
A. You mean severing the gas from the transportation with regard to Mid-Kansas?
Q. That's right. Let me lay a little foundation. My understanding of your recommendation, your disallowance, it assumes that we could have still received the gas but had it transported over Williams. That's my understanding of what you've been telling me today.
A. Well, really what I've attempted to do is take the transportation -- I don't think I've really separated the two. I've said here's the transportation on Mid-Kansas, and here's the gas supply, and then I've compared that to a scenario where we have Williams transportation and Williams gas supply priced at Williams index prices plus an estimated premium of 4 percent, and I've compared the two.
So you get -- on the one hand you have 7.8 million difference in transportation charges between Mid-Kansas and Williams, but on the other hand, because of the lower supply costs on Mid-Kansas, you have about a $3.2 million offset.
That part of it's advantageous on

Mid-Kansas, and that offsets against the higher transportation charges and you get a net adjustment of 4.5 million. So I haven't -- I haven't said or contended that you can separate the supply from the transportation on Mid-Kansas.
Q. Well, maybe I'm not understanding this, but if you're giving us a credit for the Mid-Kansas gas supply in your calculation, that tells me that you're assuming we could have gotten the Mid-Kansas gas but had it transported over Williams. Is that assumption incorrect?
A. Yeah. That's not my intention. I'm saying, based on what we had in the 96-450, we had -- we had gas supply and transportation for Mid-Kansas, which MGE actually paid those costs. They're invoiced. They're referenced in DR 23.
And I just said if they did -- if that didn't exist at all, what would we have gotten, what would it have been on Williams? And I used MGE's DR 23 to get the fixed and variable transportation, and then the gas supply piece of it I used a Williams index, which is higher and more expensive than the index under the Mid-Kansas contract, to calculate the gas supply piece.
So I really haven't separated the two, or it

wasn't my intention to do that.
Q. All right.
A. I'm looking at one scenario for Mid-Kansas as compared to one scenario on Williams.
Q. So essentially you're saying that instead of renegotiating with Mid-Kansas in February of '95 to get a lower gas price, MGE should have renegotiated to sever its entire relationship with Mid-Kansas?
A. That's correct. So you have lower transportation charges on Williams but higher gas supply costs, and the net is 4.5 million.
Q. All right. Then let me ask the question this way. What is your entire basis and rationale for assuming that MGE could have negotiated in early 1995 a complete severance of its relationship with Mid-Kansas?
A. And again, as I've indicated earlier, it's the consulting study and conversations that I've had with people who were involved in the 94-101 and 94-228 cases, and --
Q. I don't want to cut off your answer.
A. No. That's fine.
Q. So I assume from your answer that you have no statements at all from anybody representing Mid-Kansas that they would have agreed to such a

severance in early 1995?
A. I have not seen anything like that.
Q. I would also assume that you have no statements or similar facts from anybody on MGE's side that they believe they could have achieved a complete severance from MKP in early 1995?
A. Again, nothing that I've seen.
Q. You talked about this Reed study several times. How do you know that the statements that are allegedly made in this study about the capacity on the Williams system are accurate?
A. Well, obviously you're making an assumption that the consultant who did the study was factually accurate and truthful and reliable.
Q. So the answer to my question is you have no basis, no independent basis for assuming these statements that are allegedly contained in the Reed study are accurate; you're simply relying on the fact that because they were said they must be accurate?
A. I think it's a reasonable assumption that they're accurate.
Q. Why do you think it's a reasonable assumption that they're accurate?
A. I don't know. I mean, a consultant does a study and issues a report. To me, he believes that

NOTES

NOTES

what he's -- what he's reported in his study is accurate. So -- but my assumption is based on the study.
Q. On that basis, do you think that the Reed study then was correct in its entirety?
A. I think that's an assumption you can make, yeah. I haven't -- I don't recall the entire study and what it said, but certainly the consultant who did the study would have believed everything he wrote in the study. I think that's a reasonable assumption.
Q. Okay. But I'm not asking you whether the consultant believed what he wrote.
A. Do I believe what the consultant wrote?
Q. That's what I asked you. What independent basis do you have for making the statement or assuming that what the consultant said was accurate?
A. I personally did not do any other analysis myself.
Q. All right. Now, who hired this consultant, to your knowledge?
A. My recollection is it was MGE.
Q. So this is not a product of the Staff?
A. No.
Q. And I guess it goes without saying that this consultant was not a party to GR-96-450?

A. Not that I'm aware.
Q. Do you know what hearsay means? You've used the term a couple times --
A. Yeah.
Q. -- in the past.
Would you agree that this document is hearsay, this consulting document is hearsay that you're relying on?
A. Yeah, I guess it would be.
Q. Is it your understanding or is it your contention that by answering Data Request No. 23, that MGE agreed that Williams could have provided an additional 46,332 MMBtu per day?
A. No. No. It's a hypothetical.
Q. In response to one of the questions of Mr. Keevil, you mentioned that there was some possibility of a Mr. Busch and a Mr. Flowers perhaps filing rebuttal testimony in this case or being involved in discussions in this case.
What I would like to know is, what facts relating to this case are in the possession of Mr. Busch or Mr. Flowers?
A. I don't think they're in possession of, to my knowledge, of any facts. They've been involved in one conversation, and it was kind of, you know, to let

NOTES

them know what was going on with the case and kind of put them on notice.
They haven't written any testimony that I'm aware of. I -- you know, I'm not sure if they're going to file testimony. That hasn't been determined yet, and I think what they know is very basic to the case. So I don't think they're really in possession of any key facts or anything like that.
Q. Well, what was the purpose of involving them in these discussions if they don't have any knowledge of the facts of this case to begin with?
A. I think it was just basically to let them know what was going on, and Mr. Flowers is an engineer and Mr. Busch is an economist.
Q. Well, who decided that they needed to be involved in the discussions of the facts of this case?
A. I'm not really sure where that really initiated. I mean, it could have been -- it could have been Mr. Sommerer. It could have been the two of them may have said, you know, can we sit in on one of these things to find out what was going on. I'm not really sure where that started.
Q. What possible contribution could be made by either of these two people to this case?
A. I don't know. I mean, it's -- that's hard

to say. You know, I don't know the direction the case is going to go in. I don't know who -- who's going to be involved. I just -- I really don't know the answer to that question.
Q. Well, you're -- I'm assuming you're not planning on changing the basis for your disallowance, are you?
A. I don't think so. Yeah. And again, Mr. Keevil asked me what other staff members had been, I think he used the word contacted with regard to this issue, and to be straightforward and truthful, there are two other people that I'm aware of that sat in on a meeting where this was discussed.
Q. But your testimony is that it's solely for purposes of briefing them and providing them with information as opposed to them contributing something that would somehow bolster or modify your recommendation?
A. That's -- yeah. It was a basic informational thing.
Q. Okay. Are you aware that Riverside has filed documents at FERC indicating that losses of revenue such as under the contract that we're dealing with here today would result in their seeking bankruptcy protection?

NOTES

A. I haven't seen that document, but again, through conversations I was -- I was aware that they were having some problems. I don't know the specifics of it.
Q. Does that affect your recommendation in any way?
A. No.
Q. You don't care whether they file for bankruptcy or not?
A. Well, it's -- you have to look at the fact that the charges are nearly double what Williams' are, and that's -- you know, that's the basis of our adjustment.
Q. Do you recall any involvement by members of the Staff to get or encourage Western Resources to enter into contracts with Mid-Kansas in order to provide an alternative source of supply to the Williams pipeline?
A. No, I'm not.
Q. Would you be surprised if the Staff encouraged Western Resources to enter into contracts with Mid-Kansas to get away from a monopoly-type supply by Western Resources?
A. Would I be surprised? No, not really. I mean, I can see why somebody would look at two

pipelines and the idea that one could cause the other one to reduce its rates. That hasn't happened in this particular relationship between MGE and Williams and Mid-Kansas, but certainly conversations to that extent could have taken place.
Q. I'm going to ask this one last time. You've told me everything in your knowledge that's the basis for the recommendation that you made on June 1 and that's reflected in your direct testimony?
A. That's correct.
Q. You have not omitted any rationale, any argument, any basis?
A. No.
MR. DUFFY: That's all the questions I have.
MR. SCHWARZ: I have a couple that I would like to ask, I hope by way of clarification.
CROSS-EXAMINATION BY MR. SCHWARZ:
Q. Early on you were asked about Williams' tariffs, and you indicated that they were down on five, and I believe that your answer suggested that those were in the tariff room. Do you recall that at all?
A. Yes, I did.
Q. Are Williams' tariffs in the PSC tariff room?

A. They're -- I call it the tariff room, but it's back where Gordon's office and Carmen sat. They're in a file cabinet, and they're our FERC tariff books for any number of different pipelines.
Q. Okay. So you're not talking about the Missouri PSC's tariff room?
A. No. No. I'm talking about -- I should have said the tariff area, the FERC tariff area is where those are kept.
Q. To your knowledge, does the FERC set maximum rates for transportation on interstate pipelines?
A. Yes.
Q. To your knowledge, do transporters ever negotiate rates for carriage other than maximum rates?
A. Yes. There are discounts that are negotiated.
Q. Do you know if the KCC, for instance, sets maximum rates?
A. They do with -- for pipelines within Kansas.
Q. Are such rates also subject to negotiation by transporters of natural gas?
A. Yes. They're not subject to negotiation by -- yes. You said transporters. That's correct. That's true.
Q. Staff's adjustment, I believe you have

stated, and I believe your testimony and your earlier recommendation indicated that it was based on price, is that correct, price differential between MKP/Riverside prices and Williams prices; is that correct?
A. Gas supply prices and transportation rates and costs.
Q. Does Staff have any interest in whether those services are provided by Riverside/MKP or Williams?
A. No. We want to see a reasonable rate that's good for the ratepayers of Kansas City.
Q. Would it have -- so that it was the price at which the '95 MKP/Riverside contracts were executed which causes a problem, not the fact that it was with MKP/Riverside?
A. That's correct.
MR. SCHWARZ: I think that's all I have.
MR. DUFFY: I have one quick follow-up.
FURTHER REDIRECT EXAMINATION BY MR. DUFFY:
Q. What evidence do you have that Southern Union could have negotiated a different or lower price in February of '95 than it did?
A. Well, the price that they negotiated is the beneficial offset in this deal. I mean, they did get

NOTES

NOTES

a price based off of an index that was lower than Williams.

Now, if you're asking me could that have been lower, I haven't seen any documents that would indicate they could have gotten a lower price than they did.

Q. For the gas or the transportation or both?

A. That's correct.

MR. DUFFY: That's all I have.

(PRESENTMENT WAIVED; SIGNATURE REQUESTED.)

MICHAEL WALLIS

subscribed and sworn to before me this day of , 1998.

Notary Public in and
for County
State of Missouri

C E R T I F I C A T E

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Kellene Feddersen, Certified Shorthand Reporter with the firm of Associated Court Reporters, Inc., do hereby certify that pursuant to agreement there came before me,

MICHAEL WALLIS,

at the law offices of Brydon, Swearengen & England, 312 East Capitol, in the City of Jefferson, County of Cole, State of Missouri, on the 26th day of October, 1998, who was first duly sworn to testify to the whole truth of his knowledge concerning the matter in controversy aforesaid; that he was examined and his examination was then and there written in machine shorthand by me and afterwards typed under my supervision, and is fully and correctly set forth in the foregoing pages; and the witness and counsel waived presentment of this deposition to the witness, by me, and that the signature may be acknowledged by another notary public, and the deposition is now herewith returned.

I further certify that I am neither attorney or counsel for, nor related to, nor employed by, any of the parties to this action in which this deposition is taken; and further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, or financially interested in this action.

Given at my office in the City of Jefferson, County of Cole, State of Missouri, this 30th day of October, 1998. My commission expires March 28, 2001.

KELLENE FEDDERSEN, CSR, RPR
Notary Public, State of Missouri
(Commissioned in Cole County)

COSTS: (Computation of court costs based on payment within 30 days.)
Paid by Attorney for MGE:
Paid by Attorney for MKP/RPC:
Paid by Attorney for Staff:

NOTES

a price based off of an index that was lower than Williams.

Now, if you're asking me could that have been lower, I haven't seen any documents that would indicate they could have gotten a lower price than they did.

Q. For the gas or the transportation or both?

A. That's correct.

MR. DUFFY: That's all I have.

(PRESENTMENT WAIVED; SIGNATURE REQUESTED.)

RANDALL Z. WRIGHT
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

Michael J. Wallis
MICHAEL WALLIS

subscribed and sworn to before me this 4th day of November, 1998.

Randall Z. Wright
Notary Public in and for County
State of Missouri

RANDALL Z. WRIGHT
NOTARY PUBLIC-STATE OF MISSOURI
COLE COUNTY
My Commission Expires Nov. 1, 1996

ORIGINAL
Associated Court Reporters, Inc.
(573) 636-7551

RETURN TO:
ASSOCIATED COURT REPORTERS, INC.
P.O. Box 1308
Jefferson City, MO 65102
(888)636-7551

ERRATA SHEET

Deposition of: MICHAEL WALLIS

Case Caption: IN RE: MO GAS ENERGY

Date Taken: 10/26/98 KF PSC

Page	Line	Corrections	Reason
11	9	The (Q.) should be on Line 10	Line 9 is the last part of my answer in Lines 6 to 8.
52	5	step should be STIP for stipulation	
69	3	were not should be were	incorrect statement
84	9	taker pay should be take or pay	incorrect wording
84	14	taker pay should be take or pay	incorrect wording
84	16	taker pay should be take or pay	incorrect wording
84	24	taker pay should be take or pay	incorrect wording
85	6	taker pay should be take or pay	incorrect wording
85	14	taker pay should be take or pay	incorrect wording
88	6	Shallenberg should be Schallenberg	misspelling
89	21	Shallenberg should be Schallenberg	misspelling
90	8	Shallenberg should be Schallenberg	misspelling
90	25	Shallenberg should be Schallenberg	misspelling

michael j. wallis
signature

SCHEDULE
MTL - 10

ASSESSMENT OF THE VARIOUS PIPELINE EXPANSION ALTERNATIVES AVAILABLE TO SERVE MGE'S KANSAS CITY, MISSOURI MARKET

February 14, 1995

REED
CONSULTING GROUP
1050 Waltham Street • Lexington, Massachusetts 02173
617-861-7333

ASSESSMENT OF THE VARIOUS PIPELINE EXPANSION ALTERNATIVES AVAILABLE TO SERVE MGE'S KANSAS CITY, MISSOURI MARKET

The Need for Additional Capacity

Missouri Gas Energy (MGE or the Company), a subsidiary of Southern Union Company (SUC), recently prepared a 10-year demand and supply forecast for its Missouri operations, based on an analysis of recent trends. The analysis indicated that normalized annual firm loads grew by 2.5% between 1992 and 1993. The forecast assumed that the growth rate would be sustained over the 10-year period. The forecast of annual "normal" and "design" year requirements is shown in Table 1 and the forecast of peak day requirements is shown in Table 2.

Design Criteria and Load Forecast

Normal annual requirements are based on the 2.5% annual growth rate and on the weather pattern that is consistent with the 30-year average weather data for the Kansas City area (which is updated every 10 years). Design year requirements are based on a slightly higher annual growth rate (3.5%) and a weather pattern that is 5% colder than normal. There are two different design levels considered by MGE. The "historic" level is based on the highest heating degree day (HDD) recorded in the service territory (89 DD, recorded December 23, 1989) and is used for the design of the Company's distribution system. The "design" standard is derived by averaging the HDD level for the four coldest peak days from the recent past (77 HDD), and is used as the basis for planning supply capacity additions. (The 77 HDD standard, coincidentally, is equal to the second coldest day for the same period.) In general, the higher a company's design standard, the more expensive its supply portfolio will be, and the less likely that the weather standard will be exceeded and result in a supply shortfall. The lower a company's design standard, the less expensive the supply portfolio will be, but the more likely that the standard would be exceeded and result in a supply shortfall. The choice of a design standard necessarily requires a company to make a trade-off between cost and reliability. In our opinion, the design standard chosen properly balances the issues of cost and reliability while insuring a high degree of reliable service.

The assumptions used in the preparation of this forecast were reviewed by RCG and appear to be reasonable. The Company has indicated that it expects to develop a more comprehensive forecast methodology as it gains more operating experience with the Missouri operation.

Existing Pipeline Capacity in Current System Service

MGE's service territory is located in western Missouri, with service primarily in the St. Joseph, Joplin, and Kansas City, Missouri areas. The St. Joseph and Joplin areas are served only by Williams Natural Gas Company (WNG), while the Kansas City area is served by, or has access to, three interstate pipeline systems: 1) the WNG interstate system; 2) the Riverside interstate pipeline system, affiliated with the Bishop Group; and 3) the Panhandle Eastern Pipe Line system (Panhandle Eastern). Attached as Table 3 is a summary of the total purchased volumes by pipeline projected through 1996 for MGE's Missouri service area. In addition, attached as Table 4 is a summary of the contract quantities for existing contracts serving the Missouri properties.

Focusing on the Kansas City area, which consumes the majority of the gas supplies, MGE has primary interconnects with WNG's system in four locations: 1) the Riverside Station, located in Riverside, Missouri; 2) the South Glavin Station, located in the southwestern portion of Kansas City, Missouri, on the state line between Missouri and Kansas; 3) 47th Street and Belinder, located in Kansas City, Missouri; and 4) 71st Street and State Line Road, also located in Kansas City, Missouri. These interconnections feed into a high pressure loop system which provides essential feeds both into the downtown area and into the surrounding suburban communities, providing primary deliveries in the Kansas City metropolitan area.

The Riverside pipeline system currently delivers at a single point, the Riverside Station, with such deliveries parallel to those made by WNG in the same area. While the Panhandle Eastern system primarily serves small farming communities located east of Kansas City, Missouri, it also has two small, isolated interconnects on the western side of Kansas City, Missouri, with such interconnect providing limited delivery capability into the Kansas City, Missouri area. Please see Table 4, which shows the contract capacity by pipeline for both flowing capacity and storage withdrawal capability applicable to deliveries within the Missouri marketplace.

Overall, the WNG interconnects have the ability to deliver additional volumes without substantial capital investment, but the Riverside and Panhandle Eastern pipeline deliveries cannot be expanded without additional capital investment.

Peak Day Experience

The Company currently has peak day transmission service capacity of 875,000 MMBtu/day. As shown in Figure 1, this is very close to the Company's 1995 "Historical" peak day capacity requirement of 872,000 MMBtu/day and about 88,000 MMBtu/day above the 1995 "Design" peak day capacity requirement of 787,000 MMBtu/day. Without any incremental capacity, the Company would experience a shortfall as early as 1996 based on the historic standard, and would experience a shortfall in 1999 based on the design standard. Therefore, it is prudent for MGE to develop additional capacity and supply alternatives in the market place at this time to insure its ability to provide reliable service.

Capacity Needs

It would be desirable, if possible, to phase in capacity additions in a manner which allows for the addition of such capacity to match the Company's growth rate over time. However, the capital investment necessary to expand interconnected capacity and deliverability in a manner which matches MGE's ability to take away such supply deliveries into its internal distribution system limits the ability to add small increments of capacity over time without substantial contractual commitments to justify such capacity increments on the supplier pipelines. Therefore, MGE has analyzed its ability to take away capacity into its distribution system with interconnects located primarily on the south side of town, as MGE's load growth has been primarily on the east and southeast sides of Kansas City, Missouri.

In this regard, Reed Consulting Group (RCG) has reviewed the engineering data and calculations provided by MGE, and based on such information, has determined that the take away capacity into the distribution systems is approximately 6,000 MMBtu per hour, or a rate equivalent to approximately 150,000 MMBtu/day. In addition, any expansion constructed to increase pressures and volume capabilities into the eastern side of the system would provide additional take away capability from a delivery point built on the south side of Kansas City, Missouri. Therefore, with the expected load growth and existing capabilities, a contract with pipeline suppliers to provide an additional 150,000 MMBtu/day of incremental capacity in the southern portion of the Kansas City metropolitan area would appear to be the most reasonable choice for capacity additions. Capacity greater than this amount could not currently be utilized, and capacity less than this amount would not maximize the future delivery and capacity services to the eastern/southeastern portion of the system.

Although MGE's forecasts demonstrate a definite need for additional pipeline capacity by the year 1999, there are advantages to examining some new pipeline alternatives even sooner. Several contracts MGE has entered into with WNG for firm transportation expire over various terms beginning October 1, 1996, and could be replaced by capacity from other pipelines. Given that 90% of MGE's current capacity is provided by WNG, it would be beneficial for MGE to explore capacity replacement and incremental expansion opportunities on pipelines other than WNG in order to gain greater diversity, flexibility, and bargaining power. In addition, expanding capacity prior to 1999 provides the Company with greater peak day reliability. If the Company were to experience another peak day similar to the actual conditions experienced on December 23, 1989, the Company would experience a historic design day supply shortfall as early as 1996 without the capacity expansion project. With the capacity expansion project, the Company would have adequate capacity to meet projected requirements for the foreseeable future under the historic design standard.

Expansion Alternatives Available to MGE

RCG has examined a number of options for firm transportation capacity to MGE's Kansas City market and has compared the costs/rates of these various options on Table 5. These include the following: 1) acquisition of additional capacity on WNG; 2) a looping expansion of the Kansas Pipeline Partnership (KPP) and Kansas Natural Partnership (KNP) pipeline systems; 3) contracting for capacity on Panhandle Eastern, to be accessed via a new 21-mile lateral to be constructed by the Kansas Pipeline Operating Company (KPOC); and 4) contracting for capacity on Panhandle Eastern to be accessed via a lateral currently owned by Amoco. Of these options, it appears that the construction of the KPOC lateral and either the full use of capacity release for 150,000 MMBtu/day, or the use of capacity release for 100,000 MMBtu/day along with 50,000 MMBtu/day of firm transportation service on the Panhandle Eastern system would provide the greatest net benefit to MGE's ratepayers.

There are many other possibilities for providing additional capacity to the Kansas City market. Several of these, such as interconnecting with the ANR pipeline system, were evaluated by MGE's predecessor, Western Resources, Inc. (WRI), and rejected because of the excessive capital expenditures required to make such long distance interconnections.

WNG

WNG's firm capacity is presently approximately 95% subscribed. Consequently, the market-area capacity currently available on WNG is approximately 84,369 Dth; this level of capacity may fall short of MGE's needs over the next few years. The rates currently in effect for firm transportation on WNG, pending a decision by the FERC in Docket No. RP93-109, are a monthly reservation charge of $8.4183/Dth and a commodity rate of $0.0247/Dth plus fuel retention and GRI and ACA surcharges. WNG filed another rate case on January 27, 1995 in which it proposed a new reservation charge of $9.6832/Dth and a commodity charge of $0.0183/Dth plus fuel retention and GRI and ACA surcharges. These rates are shown on Table 5, as is the derivation of MGE's annual bill under these rates, assuming an incremental maximum daily quantity (MDQ) of 150,000 MMBtu/day and annual throughput of 16,425,000 MMBtu.

KPOC

The KPOC system, consisting of the TransOk, KansOk, KNP/KPP, and Riverside pipelines, is currently fully subscribed, and it has been conservatively estimated that for KPOC to increase its capacity by 150,000 MMBtu/day to serve MGE's incremental load, a minimum $50 million capital investment would be required to loop the pipeline and to add the necessary compression to meet the incremental requirement. RCG has calculated that the annual bill for such an expansion, if rates for the expansion were derived on a stand-alone, or incremental, basis, would be approximately $17,924,468 and $19,318,928, assuming rates of return on equity (ROE) to be earned by KNP/KPP of 12.37% and 15.75%, respectively.

The costs of service for the expansion, attached as Tables 6 and 7, were computed assuming a 30-year depreciable life for the facilities, a 50% debt/50% equity capital structure, a cost of debt of 9.64%, and an effective income tax rate of 39.39%. Additionally, Transmission and Administrative & General (A&G) expenses were calculated by multiplying the ratio of the cost of the expansion to the cost of existing KNP/KPP plant investment by the Transmission and A&G expenses recently approved by the Kansas Corporation Commission (KCC) in KNP/KPP's rate case.

Finally, to determine the full cost of the KPOC capacity alternative, the existing rates for service on KansOk, KNP/KPP, and Riverside were then added to the expansion cost. As shown on Table 5, this resulted in annual costs to MGE of between $48.3 and $49.6 million, depending upon which ROE scenario was utilized. The cost of this option, therefore, is significantly higher than that of any other option examined by MGE, and should not be considered a viable alternative to capacity on either WNG or Panhandle Eastern.

Panhandle Eastern plus KPOC Lateral

Three additional capacity options examined by RCG all include the building of a 21-mile lateral by KPOC to interconnect MGE with Panhandle Eastern's system. The first option would then require contracting with Panhandle Eastern for the full 150,000 MMBtu/day of firm transportation service at the current tariff rates, the second assumed that MGE would initially contract for only 50,000 MMBtu/day of firm transportation on Panhandle Eastern, and use capacity released by other shippers at the prevailing market price for any demand above the 50,000 MMBtu/day, and the third assumed that MGE would utilize capacity release on Panhandle Eastern for its full incremental requirements for the first few years after the KPOC lateral is constructed.

The method and assumptions used to derive the cost of service for the KPOC lateral, attached as Table 8, were the same as those used to calculate the cost of service for the $50 million KNP/KPP expansion, described above. The capital costs to construct the lateral were assumed to be $20 million, and the ROE applied was 12.37%. The stand-alone rates for the expansion were computed to be a $3.90/Dth monthly reservation charge, and a commodity charge of $0.0091/Dth, and the annual cost to MGE would be approximately $7,169,468.

When added to the currently effective Panhandle Eastern rates for firm transportation service, the resulting MGE annual bill for this capacity option would be approximately $28,752,210. If it was assumed that MGE would be able to obtain capacity released by other shippers on the Panhandle Eastern system for 100,000 MMBtu/day and contracted for only 50,000 MMBtu/day of firm transportation service initially, the resulting annual cost to MGE would approximate $19,359,400. Finally, if it was assumed that MGE could obtain released capacity on Panhandle Eastern for its full 150,000 MMBtu/day of requirements, the resulting annual cost to MGE would be approximately $14,662,996.

RCG utilized data supplied by Panhandle Eastern detailing capacity releases from November 1994 to February 1995. As shown on Table 9, this yielded an average rate for releases transacted of approximately 35% of the maximum rate; released capacity would be even less expensive during off-peak periods. This percentage was applied to the Panhandle Eastern rate for service to Kansas City and was then used in conjunction with the rate derived for the KPOC lateral to calculate the approximate annual costs to MGE of $19,359,400 and $14,662,996, respectively, for the partial and full capacity release options specified above, and shown on Table 5. While the capacity release data analyzed covered only a short period of time, RCG felt that since the data was from winter months, in which one would expect the percentage of the maximum rate obtained for releases to be at its highest, the application of this analysis to the calculation of MGE's annual bill could be considered conservative.

Panhandle Eastern plus Amoco Lateral

MGE recently became aware of another possible mode of interconnection with Panhandle Eastern which would involve the conversion and utilization of an Amoco product pipeline which is in close proximity to Panhandle Eastern and the southern side of the Kansas City market. However, MGE was informed when it contacted Amoco management that Amoco was in the process of negotiating a contract with Utilicorp for the acquisition of the pipeline. When MGE subsequently met with Utilicorp to discuss whether a purchase or other arrangement could be transacted, Utilicorp made no offer to MGE, stating that it was in no position to do so since Utilicorp had not yet closed on its purchase of the Amoco pipeline.

The monthly demand charge for service on the combined Amoco and Panhandle Eastern pipelines was estimated by Utilicorp to be approximately $12/Dth, as shown on Table 5. While this results in an annual cost to MGE of $21.6 million, which would make it a cost-effective alternative to the WNG or Panhandle Eastern/KPOC Lateral options, due to the uncertainty of its availability, it is not a viable option for MGE to consider at this time.

Analysis

It is apparent from the analysis presented on Table 5 that the option of expanding the KNP/KPP pipeline and utilizing the KPOC system for MGE's full incremental requirements is far too costly, with an annual bill to MGE of 2 to 2.5 times that of the other options examined. Additionally, as stated above, the Panhandle Eastern/Amoco Lateral option may not be available within the time period in which MGE will require additional capacity, and, therefore, cannot be considered a viable option. While contracting for additional capacity on WNG could meet a portion of MGE's needs, the Panhandle Eastern/KPOC Lateral option appears to provide the greatest array of benefits over the long run. Given that MGE currently contracts with WNG for over 90% of its firm transportation requirements, it would be beneficial for MGE to diversify and contract with KPOC to construct the lateral expansion facilities to permit it to interconnect with Panhandle Eastern, and to then phase in firm transportation service on Panhandle Eastern as required to meet MGE's demands, and to utilize released capacity on either Panhandle Eastern or WNG for additional non-firm volumes.

Diversification of MGE's firm transportation capacity portfolio could potentially enable MGE to bargain with WNG for discounted rates for 728,136 MMBtu/day of its total 833,414 MMBtu/day of firm capacity, the contracts for which capacity will expire during the period from October 1, 1996 through October 1, 1999, shortly after the KPOC lateral is anticipated to be completed.

Consequently, if MGE is able to negotiate even a 10% discount with WNG for renewal of capacity due to its increased bargaining power, this would save MGE approximately $9.4 million annually; this calculation is shown on Table 10.

Interconnecting with Panhandle Eastern would also allow MGE to access new areas of supply, enabling MGE to increase its supply flexibility and to potentially reduce its gas supply costs.

Conclusions

RCG has determined that MGE will require additional firm transportation capacity starting in either 1996 or 1999, depending upon whether the historical or the design peak day standard is applied to its demand forecast. Of the options available to meet these additional requirements, the construction of a lateral in 1997 by KPOC to interconnect MGE's Kansas City distribution system with the Panhandle Eastern system appears to offer the greatest net benefit to MGE and its ratepayers. This lateral would permit MGE to phase in contracts for upstream capacity as required, and would provide the Company with increased supply and transportation reliability and flexibility, as well as with greater bargaining leverage with its existing gas suppliers and with WNG for discounted firm transportation service.

Table 1

Missouri Gas Energy

Projected Annual Normal and Design Year Demand Forecasts
(Quantities in Thousands of MMBtus)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Normal Year Scenario	70,398	72,121	73,886	75,695	77,548	79,446	81,391	83,383	85,424	87,516
Design Year Scenario	73,746	76,288	78,918	81,640	84,454	87,366	90,378	93,495	96,718	100,053

Table 2

Missouri Gas Energy

Peak Day Forecast 1995 - 2004 for Historic (89 DD) and Design (77 DD) Levels
(Quantities in Thousands of MMBtus)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Historic Design Standard (89 DD)	872	898	920	943	966	991	1,015	1,040	1,066	1,093
Design Standard (77DD)	787	810	830	851	872	893	916	938	962	986

Table 3

Purchased Volumes by Pipeline
(Bcf)

Year	Total WNG	Total KPOC	Total PEPL	Total MGE
1992	53.8	4.5	3.6	61.8
1993	63.7	3.9	3.2	70.8
1994	63.6	4.0	3.3	70.9
1995	65.2	4.0	3.4	72.6 *
1996	66.8	4.0	3.6	74.4 *

* Projected

Table 4

Contract Quantities for Existing MGE Contracts

Williams Natural Gas Company

Contract	Production	Storage Withdrawal	Market
TA-624	9,104	17,649	26,474
TA-628	14,804	0	14,640
TA-630	7,614	0	0
TA-631	0	0	34,300
TA-635	105,212	203,570	305,355
TA-637	27,071	0	0
TA-806	1,651	3,195	4,792
TA-807	2,217	4,290	6,435
TA-808	55,247	106,894	160,341
TA-809	84,840	164,152	246,228
Total MDQ	307,760	499,750	798,565

Panhandle Eastern Pipeline Company

Contract	Flowing Capacity	Storage Withdrawal
EFT	17,881	
WS		8,976
IOS		3,513
Total MDQ	17,881	12,489

Kansas Pipeline Partnership

Pipeline	Supply	Transportation
Mid-Kansas	46,332	
Riverside		46,332
Total MDQ	46,332	46,332

Table 5

MGE Expansion Options

Expansion Option	Rates Demand	Rates Commodity \1	MGE Bill \2
Bishop Companies (currently effective rates)			
KansOk	$4.5544	$0.1043	$9,911,048
KNP/KPP	$10.5256	$0.0281	$19,406,801
Riverside	$0.5180	$0.0049	$1,012,883
Total	$15.5980	$0.1373	$30,330,731
plus KNP/KPP $50 Million Looping (12.37% ROE)	$9.8750	$0.0091	$17,924,468
Total	$25.4730	$0.1464	$48,255,199
plus KNP/KPP $50 Million Looping (15.75% ROE)	$10.6497	$0.0091	$19,318,928
Total	$26.2477	$0.1464	$49,649,659
Williams Natural Gas Company			
WNG (rates effective 3/1/94)	$8.4183	$0.0935	
GRI	$0.1340	$0.0085	
ACA		$0.0024	
Total	$8.5523	$0.1044	$17,108,910
Williams Natural Gas Company			
WNG (rates from newly-filed rate case)	$9.6832	$0.0871	
GRI	$0.1340	$0.0085	
ACA		$0.0024	
Total	$9.8172	$0.0980	$19,280,610
Panhandle Eastern Pipeline plus KPOC Lateral Expansion			
Panhandle Eastern (rates effective 11/1/94)	$10.8700	$0.0972	
GRI	$0.1340	$0.0085	
ACA		$0.0024	
Total Panhandle Eastern	$11.0040	$0.1081	$21,582,743
plus KPOC Lateral Expansion	$3.9000	$0.0091	$7,169,468
Total	$14.9040	$0.1172	$28,752,210
Panhandle Eastern FT & Capacity Release plus KPOC Lateral			
PEPL FT (MDQ = 50,000)	$11.0040	$0.1081	$7,194,248
PEPL Cap. Release (MDQ=100,000 @ 34.72% of FT)	$3.8206	$0.0375	$4,995,685
KPOC Lateral	$3.9000	$0.0091	$7,169,468
			$19,359,400
Panhandle Eastern Capacity Release plus KPOC Lateral			
PEPL Cap. Release (MDQ=150,000 @ 34.72% of FT)	$3.8206	$0.0375	$7,493,528
KPOC Lateral	$3.9000	$0.0091	$7,169,468
	$7.7206	$0.0466	$14,662,996
Panhandle Eastern Pipeline plus Amoco Lateral	$12.0000		$21,600,000

Notes: \1 Commodity rates include the fuel retention percentages of each pipeline multiplied by an assumed gas cost of $2.00/MMBtu.

\2 MGE's annual bills are based upon an MDQ of 150,000 MMBtu and an assumed

Table 6

KNP/KPP LOOPING EXPANSION

Schedule 1

RATE BASE, OPERATING INCOME, AND RATE OF RETURN

Line No.	Description	Reference	Pro Forma Adjusted Total
	RATE BASE		
1	Gas Plant in Service		$50,000,000
2	Less Accumulated Provision for		
3	Depreciation and Amortization		$0
4	Net Gas Plant in Service		$50,000,000
5	Total Rate Base		$50,000,000
	OPERATIONS		
6	Expenses		
	Transmission Expense		$2,923,668
	Administrative & General		$5,006,017
	Depreciation/Amortization		$1,666,667
	Taxes Other than Income		$817,000
7	Total		$10,413,352
	RATE OF RETURN		
8	Return on Rate Base	(12.37% ROE, See Schedule 2)	11.00%
9	Operating Income Requirement	(Line 5 * Line 8)	$5,502,250
	REVENUE REQUIREMENT TO EARN REQUESTED RATE OF RETURN		
10	Required Operating Income	(Line 7 + Line 9)	$15,915,602
11	Associated Income Taxes	(39.39% Effective tax rate)	$2,009,420
12	Revenue Required		$17,925,022

Table 6

KNP/KPP LOOPING EXPANSION

Schedule 2

CAPITAL STRUCTURE AND RATE OF RETURN

Line No.	Description	12/31/93 Capital	Capital Ratios	Costs	Weighted Costs
1	Debt	$25,000,000	50.00%	9.64%	4.82%
2	Partners' Equity	$25,000,000	50.00%	12.37%	6.18%
3	TOTAL	$50,000,000	100.00%		11.00%

Table 6

KNP/KPP LOOPING EXPANSION

Schedule 3

CALCULATION OF EFFECTIVE TAX RATE

Line No.	Description	Percent
1	Operating Income Before Income Taxes	100.00%
2	Kansas State Tax Rate	6.75%
3	Taxable Income - Federal	93.25%
4	Federal Income Tax Rate	35.00%
5	Federal Income Tax (Line 3 * Line 4)	32.64%
6	Effective Tax Rate (Line 2 + Line 5)	39.39%

Table 6

KNP/KPP LOOPING EXPANSION

Schedule 4

ALLOCATION FACTORS

Ratio of Net Plant Investment in Lateral to Net Plant Investment in Combined KNP/KPP

New Lateral	$50,000,000
Combined KNP/KPP	$34,883,820
Ratio	143.33%

Table 6

KNP/KPP LOOPING EXPANSION

Schedule 5

COST OF SERVICE AND RATE DESIGN

Line No.	Description	Pro Forma Adj. Total		Fixed	Variable
1	Transmission Expense	$2,923,668	1/	$2,773,668	$150,000 (est)
2	Administrative & General	$5,006,017	2/	$5,006,017	
3	Depreciation	$1,666,667		$1,666,667	
4	Taxes Other than Income	$817,000		$817,000	
5	Income Taxes	$2,009,420		$2,009,420	
6	Total Expense	$12,422,772		$12,272,772	$150,000
7	Return Allowance	$5,502,250		$5,502,250	
8	Cost of Service	$17,925,022		$17,775,022	$150,000

9	Daily Quantities for FIRM SERVICE Reservation Determinants	150,000
10	Annual Quantities for FIRM SERVICE Usage Determinants (30% L.F.)	16,425,000
11	Firm Reservation charge per month pre MMBtu of MDQ	$9.8750
12	FIRM Usage charge per MMBtu delivered	$0.0091

1/ Calculated based on the ratio of the net plant investment in the new looping relative to the combined Kansas Intrastate Pipelines. ($50,000,000/$34,883,820 = 143.33% * Kansas Intrastate Transmission expense of $2,039,774 (KNP/KPP Schedule 9.1)).

2/ Plant ratio (see note 1 above) * Kansas Intrastate A&G expense of $3,492,580.

Table 7

KNP/KPP LOOPING EXPANSION

Schedule 1

RATE BASE, OPERATING INCOME, AND RATE OF RETURN

Line No.	Description	Reference	Pro Forma Adjusted Total
	RATE BASE		
1	Gas Plant in Service		$50,000,000
2	Less Accumulated Provision for		
3	Depreciation and Amortization		$0
4	Net Gas Plant in Service		$50,000,000
5	Total Rate Base		$50,000,000
	OPERATIONS		
6	Expenses		
	Transmission Expense		$2,923,668
	Administrative & General		$5,006,017
	Depreciation/Amortization		$1,666,667
	Taxes Other than Income		$817,000
7	Total		$10,413,352
	RATE OF RETURN		
8	Return on Rate Base	(15.75% ROE, See Schedule 2)	12.70%
9	Operating Income Requirement	(Line 5 * Line 8)	$6,347,500
	REVENUE REQUIREMENT TO EARN REQUESTED RATE OF RETURN		
10	Required Operating Income	(Line 7 + Line 9)	$16,760,852
11	Associated Income Taxes	(39.39% Effective tax rate)	$2,558,685
12	Revenue Required		$19,319,536

Table 7

KNP/KPP LOOPING EXPANSION

Schedule 2

CAPITAL STRUCTURE AND RATE OF RETURN

Line No.	Description	12/31/93 Capital	Capital Ratios	Costs	Weighted Costs
1	Debt	$25,000,000	50.00%	9.64%	4.82%
2	Partners' Equity	$25,000,000	50.00%	15.75%	7.88%
3	TOTAL	$50,000,000	100.00%		12.70%

Table 7

KNP/KPP LOOPING EXPANSION

Schedule 3

CALCULATION OF EFFECTIVE TAX RATE

Line No.	Description	Percent
1	Operating Income Before Income Taxes	100.00%
2	Kansas State Tax Rate	6.75%
3	Taxable Income - Federal	93.25%
4	Federal Income Tax Rate	35.00%
5	Federal Income Tax (Line 3 * Line 4)	32.64%
6	Effective Tax Rate (Line 2 + Line 5)	39.39%

Table 7

KNP/KPP LOOPING EXPANSION

Schedule 4

ALLOCATION FACTORS

Ratio of Net Plant Investment in Lateral to Net Plant Investment in Combined KNP/KPP

New Lateral	$50,000,000
Combined KNP/KPP	$34,883,820
Ratio	143.33%

Table 7

KNP/KPP LOOPING EXPANSION

Schedule 5

COST OF SERVICE AND RATE DESIGN

Line No.	Description	Pro Forma Adj. Total		Fixed	Variable
1	Transmission Expense	$2,923,658	1/	$2,773,668	$150,000 (est)
2	Administrative & General	$5,006,017	2/	$5,006,017	
3	Depreciation	$1,666,667		$1,666,667	
4	Taxes Other than Income	$817,000		$817,000	
5	Income Taxes	$2,558,685		$2,558,685	
6	Total Expense	$12,972,036		$12,822,036	$150,000
7	Return Allowance	$6,347,500		$6,347,500	
8	Cost of Service	$19,319,536		$19,169,536	$150,000

9	Daily Quantities for FIRM SERVICE Reservation Determinants	150,000
10	Annual Quantities for FIRM SERVICE Usage Determinants (30% L.F.)	16,425,000
11	Firm Reservation charge per month pre MMBtu of MDQ	$10.6497
12	FIRM Usage charge per MMBtu delivered	$0.0091

1/ Calculated based on the ratio of the net plant investment in the new looping relative to the combined Kansas Intrastate Pipelines. ($50,000,000/$34,883,820 = 143.33% * Kansas Intrastate Transmission expense of $2,039,774 (KNP/KPP Schedule 9.1)).

2/ Plant ratio (see note 1 above) * Kansas Intrastate A&G expense of $3,492,580.