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September 11, 2003

Secretary
Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED³
SEP 11 2003

RE: Case No. GT-2004-0049

Missouri Public
Service Commission

Dear Mr. Roberts:

Enclosed please find an original and eight copies of Missouri Gas Energy's Direct Testimony of Michael R. Noack in the above-referenced matter. Please file stamp the enclosed extra receipt copy and return it to me for my records.

If you have any questions concerning this matter, then please do not hesitate to contact me. Thank you very much for your attention to this matter.

Sincerely,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:


Dean L. Cooper

DLC/llv
Enclosure
cc:

Lera Shemwell
John Coffman
Stuart W. Conrad
Michael A. Rump

Exhibit No.: _____
Issues: Daily Balancing
Witness: Michael R. Noack
Sponsoring Party: Missouri Gas Energy
Case No.: GT-2004-0049

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GT-2004-0049

FILED³

SEP 11 2003

**Missouri Public
Service Commission**

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

September 11, 2003

DIRECT TESTIMONY OF MICHAEL R. NOACK

CASE NO. GT-2004-0049

SEPTEMBER 11, 2003

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
2 **ADDRESS?**

3 A. My name is Michael R. Noack and my business address is 3420 Broadway,
4 Kansas City, Missouri 64111.
5

6 **Q. BY WHOM ARE YOU EMPLOYED?**

7 A. I am employed by Missouri Gas Energy (MGE), a division of Southern Union
8 Company (Company), as Manager of Pricing and Regulatory Affairs.
9

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
11 **EXPERIENCE.**

12 A. I received a Bachelor of Science in Business Administration with a major in
13 Accounting from the University of Missouri in Columbia in 1973. Upon
14 graduation, I was employed by Troupe Kehoe Whiteaker & Kent (TKWK), a
15 Certified Public Accounting Firm in Kansas City, Missouri. I spent
16 approximately 20 years working with TKWK or firms that were formed from
17 former TKWK employees or partners. I was involved during that time in public
18 utility consulting and financial accounting, concentrating primarily on rate cases
19 for electric and gas utilities and financial audits of independent telephone
20 companies across the United States. In 1992, I started Carleton B. Fox Co. Inc. of
21 Kansas City which was an energy consulting company specializing in billing

1 analysis and tariff selection for large commercial and industrial customers. In July
2 2000 I started my position with MGE. Presently I hold, in good standing, a
3 Certified Public Accountant certificate in the state of Kansas and am a member of
4 the Kansas Society of Certified Public Accountants.

5
6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. The purpose of my testimony is to support MGE's filing of new tariff sheets
9 covering the provisions for the transportation of natural gas.

10
11 The tariff sheets that have been filed with the Commission are attached to my
12 testimony as Schedule 1.

13
14 **Q. WHY HAS MGE FILED THESE NEW TRANSPORTATION**
15 **PROVISIONS?**

16 A. Southern Star Central Pipeline (formerly Williams Pipeline) filed tariff sheets at
17 FERC for the purpose of making Southern Star a daily allocating pipeline. The
18 changes proposed by Southern Star would convert reservation rates from monthly
19 to daily rates, delete Periods of Daily Balancing (PODBs) entirely and move the
20 language with respect to daily penalties for unauthorized over-deliveries and
21 under-receipts to the Operation Flow Order (OFO) provisions of the tariff. In
22 addition, Southern Star notified MGE in accordance with contractual provisions,
23 that effective July 1, 2003, the predetermined allocation methodology (also

1 referred to as "burner-tip balancing") would be terminated, thus shifting any
2 imbalances from the pipeline to MGE upon the termination of that agreement.
3 The MGE tariffs in place currently have no mechanisms to provide for the
4 administration of transportation customer imbalances that might result on a
5 monthly basis. Therefore language has been proposed which will provide for the
6 administration of any monthly transportation customer imbalances and allow for
7 cash out settlements of imbalance amounts. The new tariff sheets also include
8 language regarding the method of handling the different types of Operation Flow
9 Orders (OFOs) and any resulting unauthorized use charges.

10
11 **Q. DID SOUTHERN STAR ELIMINATE BURNER-TIP BALANCING ON**
12 **JULY 1st AS WAS SCHEDULED?**

13 A. No. An agreement was reached between MGE and Southern Star to allow
14 Burner-Tip Balancing to continue until November 1, 2003 or the same date as
15 when Southern Star asked FERC to allow their tariffs to go into effect.

16
17 **Q. WHAT DO MEAN BY THE WORD IMBALANCE?**

18 A. An imbalance is the difference between usage by a transportation customer and
19 volumes delivered by, or on behalf of, that transportation customer to the MGE
20 distribution system.

1 **Q. IF THE PREDETERMINED ALLOCATION AGREEMENT (PDA)**
2 **REFERRED TO AS BURNER-TIP BALANCING ENDS, WHAT WILL**
3 **THAT MEAN TO MGE?**

4 A. Under the Burner-Tip Balancing agreement, which essentially began in October
5 1993, the volumes used by MGE transportation customers, as adjusted for lost and
6 unaccounted for gas and thermal content, are considered the transportation
7 volumes delivered by Williams (now Southern Star) to MGE on behalf of each
8 transportation customer for all purposes. So long as a customer had a confirmed
9 nomination in place, any imbalance between nominated and delivered volumes,
10 was administered on the pipeline. As a result of the Burner-Tip Balancing
11 agreement, customers with confirmed nominations, outside of PODBs were
12 always effectively in balance on MGE's system. When the Burner-Tip Balancing
13 agreement expires, any imbalance between the nominated volumes and delivered
14 volumes will now be on MGE's system. MGE's storage capability will absorb
15 imbalances that might occur. In other words, it is extremely important for MGE
16 to have these tariff changes in place, if not at the time when Southern Star's tariffs
17 go into effect, then at least within a very short time after they go into effect. If
18 tariff sheets making provision for imbalance administration are not approved,
19 significant cost swings affecting the cost of gas paid by MGE's system sales
20 customers will be possible.

21
22 **Q. PLEASE DEFINE A NOMINATION AND WHAT DOES IT MEAN TO BE**
23 **CONFIRMED?**

1 A. A nomination is the quantity of gas that the Customer causes to be delivered to the
2 Company at each Receipt Point for the account of such Customer during a Gas
3 Day. The quantity nominated must be equalized as far as practicable over the
4 twenty-four hour period and for the services provided hereunder is assumed to
5 have been delivered to Company uniformly during each hour of the Gas Day.

6
7 Currently, under burner-tip balancing, MGE is on "passive" status with the
8 pipeline. That means that nominations are automatically confirmed (verified) by
9 the interstate pipeline and simply passed on to MGE. MGE would typically
10 change that status to "active" and assume the responsibility of confirming
11 nominations in accordance with the interstate pipeline's deadlines when the
12 interstate pipeline calls for an OFO. MGE would then have the right and ability to
13 make reductions in submitted nominations when needed to bring end-use
14 customer nominations more in line with end-use customer usage in order to
15 protect the integrity of MGE's system.

16
17 **Q. HAVE IMBALANCES OCCURRED IN THE PAST?**

18 A. Yes they have. Most recently in March 2003, Southern Star Central called an
19 OFO for all customers holding gas storage contracts with them because of low
20 storage levels. MGE notified its transport customers that they needed to be in
21 balance for the duration of the OFO primarily because gas in storage was not
22 available to cover the excess usage of a customer over their nominations. For
23 example, one customer before the OFO was out of balance by 24% (the customer

1 used 24% more gas than was nominated). After the OFO was called, that same
2 customer made sure that nominations exceeded usage for the duration of the OFO
3 and as a result was not assessed any unauthorized use charges. Any customer who
4 did not comply with the OFO and used more gas than they had nominated, was
5 assessed unauthorized use charges.

6
7 **Q. MR. NOACK, WOULD YOU PLEASE SUMMARIZE THE SIGNIFICANT**
8 **CHANGES MGE HAS MADE TO THE TRANSPORTATION**
9 **PROVISIONS?**

10 A. The first significant change in the tariff sheets, which is found on Sheet No. 59.1,
11 establishes a mechanism for customers and/or their agents to aggregate usage
12 through the use of groups or pools in order to increase flexibility and allow
13 transport customers to more easily remain in balance on a monthly basis, thereby
14 reducing the risk of having to cash out large imbalances at the end of any one
15 month. Customers and their agents would be allowed to aggregate their usage for
16 purposes of nominating and balancing transportation on the same pipeline line
17 segment or the same pipeline (Southern Star, Kinder Morgan, Panhandle or
18 Enbridge) and MGE distribution system (St. Joseph region, Joplin region or the
19 Kansas City region).

20
21 Changes to the pools would need to be submitted to MGE prior to the last
22 working day of the month to become effective on the first day of the following
23 month. Customers would not be able to belong to more than one pool.

1

2 **Q. WHAT IS THE NEXT SIGNIFICANT CHANGE TO THE TARIFF**
3 **LANGUAGE?**

4 A. The next significant change is on Sheet No. 61.2 and sets forth the mechanics of
5 the monthly cash out computations. So long as the customer or pool is within a
6 10% range of imbalance, the price either charged or paid for the imbalance
7 volumes will be appropriate index price for the month of the imbalance.
8 Imbalances that exceed 10% will cash out according to the table in tariff Sheet
9 No. 61.2.

10

11 **Q. WHAT IS THE LAST SIGNIFICANT CHANGE TO THE TARIFF**
12 **LANGUAGE?**

13 A. The last significant change to the tariff language addresses "Critical Use Periods"
14 and the definitions of the various types of OFOs MGE may issue and the
15 consequences of unauthorized gas usage.

16

17 **Q. ARE THESE CHANGES ALSO MADE NECESSARY BY THE FERC**
18 **APPROVING THE SOUTHERN STAR CENTRAL'S DAILY**
19 **BALANCING TARIFF FILING?**

20 A. Yes they are. Southern Star Central in its filing converted reservation rates from
21 monthly to daily rates, and removed POGBs entirely. By changing the monthly
22 reservation rates to a daily rate, fluctuations in storage balances due to daily
23 imbalances of MGE's transportation customers between usage and delivery could

1 result in increased storage charges to MGE to cover the swings in storage gas
2 levels caused by transport customers. Establishing at a minimum monthly cash-
3 out provision will hopefully cause customers to more closely monitor their usage
4 versus their deliveries.
5

6 **Q. ARE THERE ANY AMENDMENTS YOU ARE RECOMMENDING TO**
7 **THE TARIFF SHEETS AS YOU HAVE FILED THEM?**

8 A. Yes there are. Sheet No. 61.3 contains language that would allow MGE to curtail
9 a transport customer in the event of a system supply emergency even though that
10 customer's gas has been delivered to the city gate. In Case No GR-96-285 the
11 MGE tariff was changed to allow a customer to receive full transportation service
12 if a supply deficiency occurs in the volume available to MGE for resale and the
13 transportation customers supply is available. I would recommend changing the as
14 filed tariff sheets to reflect the existing language in MGE tariffs dealing with
15 supply deficiencies and system capacity limitations.
16

17 **Q. DOES THAT CONCLUDE YOUR TESTIMONY AT THIS TIME?**

18 A. Yes it does.
19

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Request)
For Approval of Tariff Sheets Concerning Daily)
Balancing of Natural Gas For Large Volume)
Customers)

Case No. GT-2004-0049

Tariff No. JG-2004-0009

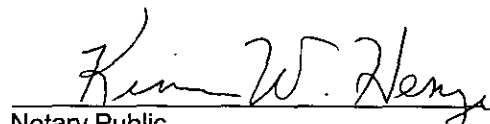
AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

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


MICHAEL R. NOACK

Subscribed and sworn to before me this 10th day of September 2003.


Notary Public

My Commission Expires: Feb. 3, 2007

Kim W. Henzi
Notary Public - Notary Seal
State of Missouri
Jackson County
My Commission Expires Feb. 3, 2007

Missouri Gas Energy,
a Division of Southern Union Company

For: All Missouri Service Areas

EXPERIMENTAL SCHOOL TRANSPORTATION PROGRAM

ESTP

The transporting pool shall, at all times, cause gas to be delivered to a "city gate" (an interconnection point between the delivering upstream pipeline system and the Company's local distribution system over which the gas is being delivered to the customer's facilities where it is to be ultimately consumed) which is acceptable to the Company.

The Company will not accept gas from a pool where such pool causes gas to be delivered at a city gate location which could jeopardize, at any time, delivery of gas purchased by the Company for resale to its firm customers.

The Company shall retain all records associated with its decision to deny a pool transportation service and/or to deny service at any specific city gate interconnection point. The Company will provide an explanation of its decision and supporting documentation to the pool, or its designated agent, upon request. The Company will also provide pertinent records to the staff of the Missouri Public Service Commission and the Office of Public Counsel upon request, subject to claims of privilege.

7. Refunds--Except for the Balancing Fee as provided hereinabove, it is the Company's general intention that reconciling factors within the Purchased Gas Adjustment clause not apply to volumes transported under the ESTP; provided, however, that the Commission shall retain authority to order otherwise upon good cause shown.
8. General Transportation Provisions--The following Transportation Provisions (TRPR) also apply to service under this schedule ESTP:
 - a. Responsibility for Transported Gas (Sheet No. 59)
 - b. Daily Quantity (Sheet No. 60);
 - c. Quality, Heat Content and Delivery Pressure for Transportation (Sheet Nos. 60, 61 and 61.1);
 - d. Cash Out (Sheet 61.2 and 61.3)
 - e. Priority of Service (Sheet Nos. 61.4 and 62);
 - f. Unauthorized Deliveries and Penalties (Sheet Nos. 65 and 66)

DATE OF ISSUE July 1 2003
month day year

DATE EFFECTIVE August 1 2003
month day year

ISSUED BY: Robert J. Hack

VP, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, MO. 64111

Missouri Gas Energy,
a Division of Southern Union Company
Name of Issuing CorporationFor: All Missouri Service Areas
Community, Town or CityTRANSPORTATION PROVISIONS
TRPR

- A. REQUIREMENTS FOR TRANSPORTATION SERVICE: The provisions of this schedule apply to the transportation service provided to customers qualified to receive such service, in accordance with the Company's applicable rate schedules.
- (1) Company's Responsibility: Company shall deliver to a customer volumes of gas which are thermally equivalent to the volumes of gas received for the customer at a receipt point, less any amount retained by Company according to Section A-6 Retainage.
 - (2) Customer's Responsibility: A customer, by taking service under a transportation service rate schedule, warrants and agrees that:
 - (a) Gas delivered to the Company for transport shall be free from all adverse claims, liens and encumbrances and shall indemnify and save the Company harmless from and against all suits, actions, causes of action, claims and demands, including attorneys' fees and costs, arising from or out of any adverse claims by third parties claiming ownership of or an interest in said gas, caused by the failure to provide clear title to the gas,
 - (b) Company shall not be responsible in any way for damages or claims relating to the customer's gas or the facilities of the customer or others containing such gas prior to receipt into Company's facilities or after delivery to the customer, and
 - (c) The customer's gas shall at all times remain vested in the customer.
 - (3) Customer's Agent: Company-approved agents shall be allowed to deliver gas to Company's system for a transportation service customer.
 - (a) Agent's Responsibilities: An agent arranging for delivery of gas for a transportation service customer must receive Company approval prior to delivering gas to Company's system. Agents receiving Company approval and choosing aggregated balancing as described in Section A-4 Aggregation shall enter into a signed agreement with Company, which shall acknowledge the agent's responsibilities under Section A-9 Cash Out and Section B-6 Penalties for Unauthorized Usage.

DATE OF ISSUE: July 01 2003
Month Day YearDATE EFFECTIVE: August 01 2003
Month Day YearISSUED BY: Robert J. HackVice President, Pricing and Regulatory Affairs
Missouri Gas Energy
Kansas City, MO. 64111

Missouri Gas Energy,
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Name of Issuing CorporationFor: All Missouri Service Areas
Community, Town or CityTRANSPORTATION PROVISIONS
TRPR

- (b) Affidavit: A customer to be represented by an agent must provide Company with an affidavit identifying its agent. This authorization shall be in a form agreeable to Company and shall remain in effect until a signed replacement is received by Company.
- (c) Billing: Company may accept payment from the customer's agent; however, the customer shall continue to be responsible for all charges on the account. In the event of any billing dispute, Company shall notify the customer directly and shall not be required to notify the customer's agent.
- (4) Aggregation: Customers' agents shall be allowed to aggregate their customers' usages for purposes of nominating and balancing transportation deliveries on the same pipeline line segment, or the same pipeline and MGE distribution system.
- (a) Aggregation Groups (Pools): An agent shall establish its customers within each aggregation area into a pool or pools. Customers may not belong to more than one pool. Customers not assigned to a pool shall be individually balanced.
- (b) Changes to Pools: Company must receive changes to pools, in writing, prior to the last working day of a month. Changes shall become effective on the first day of the following month except that pools shall be as designated prior to the first effective day of an OFO or POC.
- (c) Monthly Imbalances: The agent selecting pooling or individual customers not belonging to a pool shall be responsible for clearing the monthly imbalance according to Section A-9, Cash Out.
- (5) Nominations: A transportation service customer or the customer's agent shall be responsible for nominating volumes of gas to be received by Company for delivery to the delivery point in order to meet customer's or pool's daily requirement for flowing gas plus retainage.

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TRANSPORTATION PROVISIONS

TRPR

- (6) Retainage: The gas retained by the Company shall be two percent of the volume delivered to the Company for transportation to the customer as compensation for Company's lost and unaccounted for and Company use gas.
- (7) Daily Quantity of Transportation Service Gas: The customer will, as nearly as practicable, have delivered to the Company, and shall take redelivery from Company at the same uniform rate. Variations in such deliveries or redeliveries which cause the Company operating problems of any kind shall give the Company the right to discontinue receipts of such gas until such variations are corrected.
- (8) Quality and Pressure of Transportation Service Gas: The gas delivered by a producer, supplier or pipeline to the Company for transportation to the customer or the customer's agent shall conform to the standards prescribed in the Company's applicable rate schedules and General Terms and Conditions and shall at all times be merchantable gas of a quality otherwise required for the system of the Company to which the gas is being delivered. Such gas shall be free from any foreign materials such as dirt, dust, gums, iron particles, water, entrained liquids, and other impurities which might render it unmerchantable or interfere with the proper operation of pipelines, meters, regulators or other facilities through which it flows or is. Company may refuse to receive gas not meeting the quality requirements of Section A-8-a Specifications. Acceptance by the Company of any gas not meeting the applicable quality requirements shall not obligate the Company to continue such receipts, nor shall it remove the customer's obligation to deliver gas meeting those specifications:
- (a) Specifications: Unless stated otherwise in specific agreements, gas shall conform to the following specifications:
- (i). It shall not contain more than one (1) grain of hydrogen sulfide per 100 cubic feet, nor more than twenty (20) grains of total sulphur per 100 cubic feet,
- (ii). Its temperature shall not exceed 70° Fahrenheit

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TRANSPORTATION PROVISIONS

TRPR

- (iii.) It shall not contain more than seven (7) pounds of water vapor per 10,000 Ccf,
 - (iv.) It shall not contain more than 2% carbon dioxide by volume, nor more than 1% oxygen by volume,
 - (v.) It shall not contain more than 2% carbon dioxide by volume, nor more than 1% oxygen by volume,
 - (vi.) Its Btu content shall be no less than that normally provided or currently flowing from interconnected pipelines, nor less than as provided for in an existing contract for Company's gas from that source.
- (b) Determination of Quality: If the customer or customer's agent contracts for the purchase of gas from a producer or pipeline who is not currently delivering gas to the Company and such gas is to be delivered directly into Company facilities, the customer will bear all expense connected with the determination of the quality of gas being delivered and any required interconnections. However, the Company's obligation to transport such gas is also contingent upon the execution of an agreement between the Company and such producer or pipeline which the Company shall not unreasonably withhold setting forth the terms of interconnection, quality standards, and the respective rights of the Company and such producer or pipeline in connection with deliveries of such.
- (c) Heat Content: The heat content of the gas delivered to the customer by the Company shall be the heat content available in its system at the particular point of delivery at the time of delivery. It is recognized that the heat content at the various delivery points will vary from point to point and from time to time and nothing herein contained shall be construed as obligating the Company to alter the usual operation of its facilities to achieve deliveries of a prescribed heating value at any point or points.

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TRANSPORTATION PROVISIONS

TRPR

- (d) Measuring Heat Content of Gas Received: The heat content of the gas tendered shall be the heat content stated in BTU per cubic foot of all gas received from transporting pipeline(s) into the distribution system.
- (e) Measuring Heat Content of Gas Delivered: On Company's distribution systems served by a single transporting pipeline, the heat content of natural gas stated in BTU per cubic foot shall be the heat content of the gas delivered by the transporting pipeline. For customers transporting all gas requirements on a single transporting pipeline into a distribution system served by multiple pipelines, the BTU contents of customers' gas will be the same as the BTU contents of the transporting pipeline. For customers transporting gas on more than one pipeline, into distribution systems served by multiple pipelines, the heat content of gas delivered to customers shall be calculated utilizing the BTU per cubic foot for each transporting pipeline multiplied by a pro rate share of the delivered transportation gas.
- (f) Additional Equipment for Measuring Heat Rate: If additional BTU measurement is required by the Company or the customer, the Company shall determine the type and location of such measurement equipment and cause the same to be installed at the customer's sole expense. For customers requesting the installation of BTU measurement equipment hereunder, thermal balancing shall be performed on the basis of such measurement for a minimum period of twelve consecutive months following such installation. In all cases where BTU measurement devices requiring periodic or continuous sampling of the gas are to be installed, the customer shall pay the Company a monthly charge reasonably calculated to reimburse the Company for its operating expenses related to such sampling as well as other expenses incurred to measure and account for the heat content of the.
- (g) Delivery Pressure of Transportation Service Gas: Delivery pressures to customers shall be mutually agreed upon from time to time and shall take into account system capacity, customer requirements, and other pertinent factors.

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TRANSPORTATION PROVISIONS

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(9) Cash Out: Monthly volumes of gas delivered to a transportation service customer should, to the extent practicable, match Company's receipts for the customer less any amount retained by Company according to Section A-6, Retainage. Agents may balance the aggregated volumes of gas for each pool of customers they represent, according to the terms of Section A-4, Aggregation.

(a) Monthly Cash Out: Differences between deliveries and retainage-adjusted receipts shall be reconciled on a monthly basis between Company and a customer or the customer's agent.

(i) If Company's retainage-adjusted receipts (nomination) for the customer are less than deliveries (usage) to the customer, the customer or the customer's agent shall pay:

1.0 times the index price for each MMBtu of cumulative imbalance up to and including 10% of actual usage, or

1.2 times the index price for each MMBtu of cumulative imbalance if the imbalance is greater than 10%, up to and including 15% of actual usage, or

1.4 times the index price for each MMBtu of cumulative imbalance if the imbalance is greater than 15% of actual usage.

(ii) If Company's retainage-adjusted receipts (nomination) for the customer exceed deliveries (usage) to the customer, the customer or the customer's agent shall receive:

1.0 times the index price for each MMBtu of cumulative imbalance up to and including 10% of actual usage, or

0.8 times the index price for each MMBtu of cumulative imbalance if the imbalance is greater than 10% of actual usage, up to and including 15%, or

0.6 times the index price for each MMBtu of cumulative imbalance if the imbalance is greater than 15% of actual usage.

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(b) Index Price: The index price shall be determined as the arithmetic average of spot market prices published in the first-of-the-month Inside F.E.R.C.'s Gas Market Report, for

Southern Star Central Gas Pipeline, Inc. (Texas, Kansas,
Oklahoma)

Panhandle Eastern Pipe Line Company (Texas and Oklahoma)

- (10) Capacity Limitations: A customer may have delivery of gas curtailed in the event of system supply emergencies or capacity limitations. Company's obligation to deliver a customer's gas shall be as stated in Section B, Priority of Service. The determination of system capacity limitations shall be in the sole discretion of the Company reasonably exercised. If capacity limitations restrict the volume of gas which the customer desires to be transported, the customer may request the Company to make reasonable enlargements in its existing facilities, which requests the Company shall not unreasonably refuse, provided that the actual cost (including indirect costs) of such system enlargements are borne by the customer. Title to such expanded facilities shall be and remain in the Company free and clear of any lien or equity by the customer. Nothing herein contained shall be construed as obligating the Company to construct any extensions of its facilities.
- (11) Limitation of Transportation Service and Other Charges: Transportation shall be available only where the gas supply contracts, tariffs and schedules under which the Company obtains its gas supplies permit. Any conditions or limitations on transportation by the Company imposed by such contracts, tariffs and schedules shall be applicable to service hereunder. In the event that this transportation service causes the incurrence of demand charges, standby charges, reservation charges, penalties or like charges from the Company's gas suppliers or transporters, which charges are in addition to charges for gas actually received by the Company, such charges shall be billed to the customer in addition to amounts for service rendered hereunder. Additionally, should a change in the customer's service characteristics cause the charges anticipated above to be recovered from other customers, these charges shall be billed to the customer. Any disputes regarding the customer's responsibility for these charges shall be referred to the Commission for resolution.

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- (12) Third Party Metering: When the gas delivered to the Company for transportation to the customer is delivered through meters which are not owned and operated by the Company or the customer, customer's agent(s) or supplier(s) shall, at the earliest practicable time, but not later than the last day of each month, furnish the Company a statement showing the amount of gas in Ccf or MMBTU per day delivered for the customer's account to the Company during the billing period. The customer, upon request, shall furnish to the Company all charts, or satisfactory copies thereof, or other documentation in the case of electronic metering, upon which the statements provided for above were based. Any original charts furnished shall be returned within thirty days. By accepting natural gas transported hereunder, the customer agrees to maintain records of the volumes of transportation gas delivered to the Company on its account and to permit the Company to inspect such records upon request during the customer's regular business hours.

B. PRIORITY OF SERVICE

- (1) Service Restriction: Company may fully or partially restrict service to customers when, in Company's sole determination, restriction is necessary to protect the supply and/or delivery of gas to customers with higher priority uses.
- (2) Notice: Notice of a service restriction shall be provided as far in advance as practicable and may be changed by Company as conditions warrant. Notice shall be given to each affected customer by telephone or in writing, including facsimile and, with the customer's agreement, electronic mail. Notification of the customer's agent shall fulfill the requirement of this paragraph whenever the customer's usage is aggregated for balancing under Section A-4 Aggregation. During emergency situations, Company may use commercial radio and/or television to notify customers.
- (3) Critical Use Periods: Company may issue an Operational Flow Order (OFO) whenever necessary to instruct customers to control their usage to avoid either Under-Deliveries or Over-Deliveries.

- (a) Standard OFO: A Standard OFO shall require the customer to take preemptive or preventive actions and/or measures in order to neutralize

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or reduce threats to, or to otherwise preserve the integrity of all or a portion of Company's system, or to insure compliance with the requirements of upstream pipeline companies.

- (b) Emergency OFO: An Emergency OFO shall require the customer to take immediate actions and/or measures in order to neutralize or reduce threats to, or to otherwise preserve the integrity of all or a portion of Company's system, or to insure compliance with the requirements of upstream pipeline companies.
 - (c) Authorized Usage: A transportation service customer's authorized usage during an OFO shall be equal to that customer's retainage-adjusted confirmed nomination.
 - (d) Interrupted Supply: Whenever a transportation service customer's supply is partially or totally interrupted for any reason, that customer's authorized usage shall be limited to the retainage-adjusted confirmed nomination being delivered to Company on behalf of that customer.
 - (e) Curtailment of Transportation Service: A transportation service customer shall not be required to curtail as long as the customer's gas is delivered to Company's delivery system, except during Supply Emergencies subject to the conditions of Section B-4-e Company's Right to Purchase Transportation Gas.
- (4) Period of Curtailment: Curtailment may be initiated due to a supply deficiency or limitation of pipeline capacity or a combination of both. Company may require its sales service and transportation service customers to limit, in whole or in part, their use of Company's facilities during a Period of Curtailment (POC), taking into consideration priority of use or other factors it deems necessary to ensure public health and safety.
- (a) Authorized Usage: Company shall, at its sole discretion, authorize customers a usage level which is appropriate to the conditions of the POC.
 - (b) Curtailment Priority: Curtailment shall first apply to the lowest priority category (Category Three) and successively to each higher priority

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category as required. The categories to be used by Company to allocate available service, listed from highest to lowest priority, are:

(i) For an MGE Sales Service Supply Deficiency

(a) Category 1.

Sales service to residential customers, public housing authorities, public schools, hospitals, and other human needs customers receiving firm sales service from the Company

(b) Category 2.

Commercial sales service

(c) Category 3.

Industrial sales service

(ii) For an MGE Distribution System Capacity Deficiency

(a) Category 1.

Sales or transportation service to residential customers, public housing authorities, public schools, hospitals, and other human needs customers receiving firm sales service from the Company

(b) Category 2.

Commercial sales service and commercial transportation service

(c) Category 3.

Industrial sales service and industrial transportation service

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- (c) Exception to Curtailment Priority: Company may curtail customers in higher priority categories before curtailing customers in lower priority categories only if curtailing lower priority category customers would not be useful in maintaining deliveries to the higher priority customers.
- (d) Allocation of Partial Capacity: Should partial service only be available to an affected category, deliveries to individual customers shall be limited to the customer's pro rata share of available supply, such allocation to be based on the ratio of the customer's requirements in the category for which partial service is available to the aggregate requirements of all the Company's customers in the same category.
- (e) Company's Right to Purchase Transportation Gas: Company shall have the authority but not the requirement to purchase a transportation service customer's gas during any POC which restricts, or would otherwise restrict, Category One customers.
 - (i) Notice: Company shall use its best efforts to give the customer 24 hours advance notification of the need for any such purchase, but Company shall not be liable for failure to give advance notice when circumstances do not permit.
 - (ii) Reimbursement: Company shall reimburse the customer an amount equal to the verifiable actual replacement cost of any alternative fuel used by the customer to replace natural gas purchased by Company. Company shall account for the reimbursement as a purchased gas expense.
- (f) Emergency Usage during POCs: A customer may request to use gas above authorized levels to forestall irreparable injury to life or property. Requests by telephone shall be followed immediately by a written request. Written requests shall state the nature, cause, and expected duration of the emergency and may be submitted by facsimile (fax) transmission. The customer must act to eliminate the cause of the emergency as soon as practicable. The charge for usage above authorized levels shall be determined at the time Company receives the customer's request. Disputes concerning this charge shall be referred to the Commission for resolution.

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 Canceling P.S.C. MO. No.1

Second Revised
First Revised

SHEET No. 65
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- (g) Relief from Liability: Company shall be relieved of all liabilities, penalties, charges, payments, and claims of whatever kind, contractual or otherwise, resulting from or arising out of Company's failure to deliver all or any portion of the volumes of gas desired by a customer or group of customers during a POC. Company's relief shall apply if curtailment is according to these General Terms and Conditions or any other orders or directives of duly constituted authorities including, but not limited to, the Missouri Public Service Commission.
- (5) Unauthorized Deliveries: Over-Deliveries and/or Under-Deliveries which vary from customer's authorized usage level under an OFO or during a POC, shall be subject to the penalties described in Section B-6 Penalties for Unauthorized Usage.
- (a) Individual Customers: Unauthorized Deliveries for individually balanced customers shall be calculated by comparing each customer's retainage-adjusted confirmed nominations with actual usage less contract demand.
- (b) Pools: Unauthorized Deliveries for pools subject to aggregated balancing as defined under Section A-4 Aggregation, shall be calculated by comparing the group members' total retainage-adjusted confirmed nominations with their total actual usage less contract demand.
- (c) Meter Reading: Actual usage during an OFO shall normally be provided by electronic gas measurement (EGM) equipment. If Company is unable to obtain data from a customer's EGM device, the customer's usage shall be determined by actual meter reads.
- (d) Refusal to Comply: Company may disconnect from its system or refuse to accept the nomination of a customer which endangers system stability and/or safety by continuing to incur Unauthorized Deliveries.
- (6) Penalties for Unauthorized Usage: A customer or pool's unauthorized usage under an OFO or during a POC shall cause the incurrence of penalties. All revenues received from unauthorized use charges will be considered as gas cost recovery and will be used in the development of the gas cost recovery

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amount during the ACA audit as set forth in the Purchased Gas Adjustment schedule (PGA).

(a) Tolerance Levels: Penalties shall be assessed:

- (i) During an OFO or POC, when Unauthorized Over- Deliveries to EGM meters exceed 5% of authorized daily delivery levels.
- (ii) During an OFO, when Unauthorized Under-Deliveries to EGM meters exceed 5% of authorized daily delivery levels.

(b) Penalties during POCs shall be:

- (i) The greater of \$10 or 5 times the daily midpoint stated on Gas Daily's Index for Southern Star Central Gas Pipeline (Oklahoma) for each day of the POC, for each MMBtu of Unauthorized Over Delivery that exceeds the Tolerance Levels set in Section B-6-a Tolerance Levels but is no greater than 10% of the authorized delivery level for the customer or the aggregated balancing group, and
- (ii) The greater of \$20 or 10 times the daily midpoint stated on Gas Daily's Index for Southern Star Central Gas Pipeline (Oklahoma) for each day of the POC, for each MMBtu of Unauthorized Over Delivery in excess of 10% of the authorized delivery level for the customer or the aggregated balancing group.

(c) Penalties during OFOs: Penalties for Unauthorized Over-deliveries or Under-deliveries shall be calculated as follows:

- (i) Standard OFO Penalties: For each day of the Standard OFO, the greater of \$5 or 2½ times the daily midpoint stated on Gas Daily's Index for Southern Star Central Gas Pipeline (Oklahoma) times the MMBtu of Unauthorized Over- or Under-deliveries that exceed the tolerance level applicable under Section B-6-a Tolerance Levels.
- (ii) POC and Emergency OFO Penalties: For each day of the POC or Emergency OFO, the greater of \$10 or 5 times the daily midpoint stated on Gas Daily's Index for Southern Star Central Gas Pipeline (Oklahoma) time the MMBtu of Unauthorized Over-or

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Under-deliveries that exceed the tolerance level applicable under
Section B-6-a Tolerance Levels.

- (d) Responsibility for Payment: Unauthorized Over- or Under-Delivery
Penalties for individually balanced customers shall be billed to and
collected from the applicable customer. Unauthorized Over- or
Under- Delivery Penalties for pools shall be billed to and collected
from the agent representing the aggregated customers. Customers
will continue to have ultimate responsibility for all charges on the
account.

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