

Exhibit No.:
Issues: Capacity Release
Off-System Sales
Witness: Anne M. Allee
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2009-0355
Date Testimony Prepared: October 14, 2009

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

ANNE M. ALLEE

**MISSOURI GAS ENERGY,
a Division of Southern Union Company**

CASE NO. GR-2009-0355

*Jefferson City, Missouri
October 2009*

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

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**MISSOURI GAS ENERGY,
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CASE NO. GR-2009-0355

Q. Please state your name and business address.

A. Anne M. Allee, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Anne M. Allee who has previously been responsible for a section of the Class Cost-of-Service and Rate Design Report filed by the Staff in this case?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to Missouri Gas Energy, a Division of Southern Union Company (MGE or Company) witness David N. Kirkland's rebuttal testimony regarding capacity release and off-system sales.

Q. Please describe Staff's and Company's positions regarding capacity release and off-system sales profit.

A. MGE’s current tariff authorizes the Company to keep a percentage or share of the profits from off-system sales and capacity release credits. All other revenues from off system sales and capacity release go back to the customers through the Purchased Gas Adjustment (PGA) process to lower customers’ gas costs. The current sharing percentages contained within MGE’s tariffs are shown below:

Annual Capacity Release Credits & Off-System Margin	MGE Retention Percentage	Firm Sales Customer Percentage
First \$300,000	15%	85%
Next \$300,000	20%	80%
Next \$300,000	25%	75%
Amounts Over \$900,000	30%	70%

Staff and MGE disagree on the appropriate thresholds/tiers that establish the percentage of sharing. Staff recommends the thresholds be set at \$2 million so the Company receives 30% of the profits for amounts earned over \$6 million. In Mr. Kirkland's rebuttal testimony, he recommends, if the Commission believes a change to the current sharing grid is necessary, the thresholds be set at \$600,000 so that MGE receives 30% of the profits for amounts earned over \$1.8 million.

Q. Are there any other Missouri Local Distribution Companies (LDC) with Staff's recommended type of sharing grid?

A. Only one. A sharing grid identical to the one Staff has recommended in this case was approved by the Commission for Laclede Gas Company in Case No. GR-2007-0208. For all other LDC's in Missouri, 100% of off-system sales and capacity release flow to the customers through the PGA as a reduction to gas costs.

Q. Are there other states that allow similar incentives for Companies to maximize its capacity release and off-systems sales?

A. Yes. However, from Staff's research, it appears allowing the utility a 30% share of the profits is at the upper range of sharing allowed by other states. Staff's proposal to increase the tier thresholds has the impact of reducing the overall sharing percentage that accrues to MGE.

1 Q. Please quantify the effect on the ratepayers and MGE of Staff's \$2 million
2 tier compared to MGE's \$600,000 tier proposal.

3 A. The ratepayers would have received an additional ** **
4 reduction in their annual gas costs using Staff's proposed \$2 million thresholds based
5 upon MGE's actual capacity release and off-system sales levels for the twelve months
6 ended June 2009. In comparison, the ratepayers would have received an additional
7 ** ** reduction in annual gas costs using MGE's proposed \$600,000 tiers.
8 Thus, the ratepayers gas costs would be reduced \$420,000 more under Staff's proposal.

9 At the same time, MGE's share would have been ** ** less under
10 Staff's and ** ** less under MGE's proposals. This means MGE would have
11 retained ** ** of capacity release and off-system sales profits under the
12 Staff's proposal, instead of the ** ** it retained under its current tariffs.

13 Q. Mr. Kirkland says on page 12 of his rebuttal testimony that MGE's
14 customers have derived "substantial financial benefits from MGE's active management of
15 its capacity portfolio." Has MGE also derived a substantial benefit from this
16 management?

17 A. Yes. Mr. Kirkland explains MGE's firm customers have retained in excess
18 of ** ** for the ACA years 2004-2008. This means that MGE itself has
19 retained over ** ** for the same time period. Also considering that MGE's
20 customers pay for all of the transportation, salaries of MGE employees and everything
21 necessary for MGE to make off-system sales and capacity releases, customers should get a
22 substantial financial benefit.

1 Q. If you agree that MGE has aggressively managed its capacity, then why are
2 you recommending a change to the thresholds in the sharing grid?

3 A. The theory behind the increasing sharing percentages is that each
4 additional dollar of off-system sales and capacity release profit requires more expertise
5 and effort on the part of the Company. However, MGE now has contacts and
6 relationships established with counterparties so that it does not take as much effort to
7 achieve the lower amounts in the current tier arrangements. Mr. Kirkland notes on
8 page 10 of his rebuttal testimony that ** _____ ** have been a
9 source of capacity release for the last three years. Also, in the last two Actual Cost
10 Adjustment (ACA) periods, MGE has reached the \$900,000 upper tier of the sharing grid
11 in the first month of the ACA period. Staff believes that this is an indication that the tiers
12 are set too low so that MGE is being rewarded at the highest percentage of sharing for
13 minimal effort.

14 Q. Do you agree with Mr. Kirkland's testimony (Rebuttal, page 5, lines 20-23)
15 that historically the bulk of MGE's off-system sales have been made possible by the
16 spread between the price of gas at the Cheyenne Hub in the Rockies and the price of gas
17 in the Midcontinent?

18 A. Yes, I do.

19 Q. Do you also agree that this price spread has decreased recently?

20 A. The spread between Rockies and the Midcontinent has decreased recently
21 which might dampen MGE's ability to profit from off-system sales in the future.
22 However, MGE's capacity release levels over the past two years appear to be flat at

1 around ** _____ **. At this level alone, MGE's share of the savings still would be
2 around ** _____ ** under Staff's proposed tiers.

3 Q. Mr. Kirkland points out on page 5, lines 1-2 of his rebuttal testimony that
4 Staff's proposed "change in the sharing thresholds represent an almost seven-fold increase
5 in the first three levels of revenue sharing by increasing the threshold from \$300,000 to
6 \$2,000,000." Do you agree with this statement?

7 A. Yes. However Mr. Kirkland fails to point out that MGE's capacity release
8 and off-system sales level in the most recent ACA period were almost thirteen times the
9 amount they were when the \$300,000 tiers were established.

10 Q. Mr. Kirkland argues in his rebuttal testimony that the past levels of
11 off-system sales and capacity release are not a "reasonably accurate indicator of
12 future performance" (page 5, lines 15-16 and page 10, lines 8-10) and "Essentially, MGE
13 does not see much future revenue opportunity on the Kinder Morgan pipe." (page 13,
14 lines 18-19) Has MGE made this argument before?

15 A. Yes. MGE made the same type of argument in Case No. GR-2004-0209;
16 the last case this issue was litigated. MGE witness John Hayes states the following on
17 page 12, lines 6-10 of his rebuttal testimony in Case No. GR-2004-0209:

18 Q. What conclusions do you reach on the basis of all of
19 this information?

20 A. Capacity release revenue levels MGE has been able
21 to generate in the past are not a reasonable or reliable indicator of
22 capacity release revenues MGE may be able to generate in the
23 future.

24 Q. What happened to the capacity release and off-system sales levels after this
25 2004 rate case?

1 A. They increased substantially. The table below shows the amounts:

** **	** **	** **	** **
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3 Q. Does Staff know what level of profits MGE is going to be able to achieve
4 in the future?

5 A. No. Staff's recommendation in this case is based on the most recent
6 historical information.

7 Q. What happens if MGE is correct and capacity release & off-system sales do
8 not remain at their most recent levels?

9 A. Then MGE's shareholder's sharing amount would be less than in the past.
10 It is important to note the sharing grid can only benefit MGE's shareholders. MGE's
11 shareholders bear none of the risk so there is no risk of loss to the Company from this type
12 of sharing mechanism.

13 Q. Please summarize your surrebuttal testimony.

14 A. Staff evaluated MGE's off-system sales and capacity release levels since
15 its current sharing grid was authorized in 2004. Based on the actual historical levels of
16 profits achieved by the Company, Staff recommends increasing MGE's sharing
17 thresholds. Staff believes its increased tiers strikes a balance between giving MGE an
18 incentive to maximize off-system sales and capacity release without giving MGE a

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Anne M. Allee

- 1 windfall. Staff proposes to replace MGE's current sharing grid on MGE tariff Sheet
2 No. 24.2 with the following tiers:

Annual Capacity Release Credits and Off-System Sales Margins	MGE Retention Percentage	Firm Sales Customer Percentage
First \$2,000,000	15 %	85 %
Next \$2,000,000	20 %	80 %
Next \$2,000,000	25 %	75 %
Amounts Over \$6,000,000	30 %	70 %

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4 Q. Does this conclude your surrebuttal testimony?
5 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

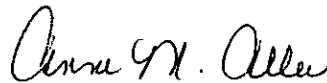
In the Matter of Missouri Gas Energy and Its)
Tariff Filing to Implement a General Rate)
Increase for Natural Gas Service)
)

Case No. GR-2009-0355

AFFIDAVIT OF ANNE M. ALLEE

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

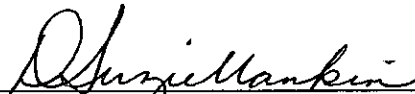
Anne M. Allee, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.



Anne M. Allee

Subscribed and sworn to before me this 13th day of October, 2009.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071



Notary Public