Exhibit No.:	_______________
Issues:	Transportation Tariffs
Witness:	David N. Kirkland
Sponsoring Party:	Missouri Gas Energy
Case No.:	GR-2009-0355
Date Testimony Prepared:	October 16, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

SURREBUTTAL TESTIMONY OF

DAVID N. KIRKLAND

Jefferson City, Missouri

October 2009

Denotes Highly Confidential Information **NP**

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

A. My name is David N. Kirkland, and my business address is 3420 Broadway, Kansas City, Missouri 64111.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Director of Gas Supply of Missouri Gas Energy ("MGE" or "Company"), a division of Southern Union Company.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS CASE?

A. Yes, I submitted rebuttal testimony in September 2009.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. In response to rebuttal testimony of Witnesses Johnstone and Haubensak, I will address Cash Out, Periods of Daily Balancing (PODBs) and Operational Flow Orders (OFOs).

<u>CASH OUT</u>

Q. MR. JOHNSTONE HAS CRITIQUED MGE'S PROPOSED REVISIONS TO ITS CASH OUT TARIFF. BEFORE RESPONDING TO HIS ARGUMENTS, CAN YOU DESCRIBE THE PURPOSE OF A CASH OUT?

A. "Cash Out" reconciles any differences between gas delivered on behalf of an LV Transportation Customer to MGE and gas used by that LV Transportation Customers on a monthly basis. At the end of each month, the volumes of gas supply delivered to MGE on behalf of LV Transportation Customers (when adjusted for MGE fuel losses) are compared to LV Customer gas usage. MGE balances LV Transportation Customers on a monthly basis by either buying excess supply delivered to MGE or selling supply to LV Customers whose deliveries fall short of usage. The sale or purchase of supplies is tied to the published prices in a nationally recognized publication, "Gas Daily". This monthly process is called "Cash Out".

Q. WHY IS THE CASH OUT TARIFF IMPORTANT?

A. The Cash Out tariff is important to the LV Transportation Customer as well as MGE's Firm Sales Customer. The monthly sales and purchase of gas supplies to and from the LV Customer are made either from or into the gas supply accounts of the Firm Customer. Firm Customers bear the risk of replacing supplies sold and replacing these supplies at an equivalent cost. Firm Customers also bears the cost of purchasing supplies from LV Customers when these supplies are not needed and storing these supplies until they are needed. The natural gas market is one of the most volatile commodity markets in the United States. For this reason, MGE customers should not suffer the consequences of purchasing supply when not needed or suffering the disadvantages of replacing supply at a price higher than the selling price.

Q. WHAT CHANGES HAS MGE PROPOSED TO THE CASH OUT TARIFF.

A. MGE proposed the following changes to its existing Cash Out Tariff:

- the cost of system transportation when purchasing supply;
- changes in tolerance levels; and
- changes to the index price as gas is either bought from or sold to the LV Customer.

The proposal to change the cost of system transportation when selling supply has not been opposed by any parties to the proceeding.

I will first address the proposal to use two monthly indexes when setting the Cash Out price. MGE has proposed to use the higher of two index prices when selling supply to LV Customers and using the lower of two index prices when buying supply from LV Customers.

The selection of the higher or lower of two index or pricing measures when setting a Cash Out index is well established as a method to encourage LV customers to minimize the volume subject to Cash Out and to provide some offset to the Firm Customer for costs associated with the sale or purchase of supplies used in monthly balancing.

Some examples are as follows:

- Atmos Energy - Missouri → The higher or lower of weekly index prices
- Atmos Energy - Kansas → The highest or lowest index prices in any week within the calendar month
- AmerenUE - Missouri → The greater of the PGA or the daily indexed commodity price for that date plus .150 per ccf

Secondly, Cash Out is a service provided by the Firm Customer for the LV Customer to reconcile the monthly activity on MGE and start each business month with a zero balance.

Third, MGE Cash Out service is not the sole option that LV Customers have to manage monthly supplies needed to meet their usage requirements. LV Customers with excess supply can sell these supplies back to the market or they can leave these supplies on the interstate pipelines through the pipelines parking or balancing services. LV Customers can also augment supplies when needed by purchasing these supplies daily for delivery to MGE. MGE provides LV Customers an internet-based information system showing the daily flow and usage for their customers, so they can be well-informed of their daily and month to date usage. The information is available for LV Customers to manage their monthly and daily business within very close tolerances.

Q. DESCRIBE THE PURPOSE OF THE HIGHER OR LOWER INDEX MEASURES.

A. The purpose of MGE purchasing Cash Out supplies at a lower cost index is to protect the Firm Customer from buying additional supplies when these supplies are not required for service. Firm Customers are disadvantaged when they are required to purchase supplies not needed and incur an additional disadvantage when paying high prices that are based on a single index.

Conversely, MGE selling supplies during Cash Out at a higher cost provides a measure of protection for the Firm Customer. The Firm Customer will replace these supplies and may pay higher costs than the Cash Out price.

The higher and lower of the current month or next month index prices as contained in the Cash Out measures as proposed by MGE better represent the market value during the flow period than does one index. While MGE believes that the price indices proposed are representative of market conditions changing from month to month, it is open to additional daily Cash Out pricing measures that will provide protection for the Firm Customer.

Q. HAS MGE'S CASH OUT PROPOSAL BEEN OPPOSED DURING REBUTTAL TESTIMONY?

A Yes. In his Rebuttal starting on Page 17 Line 5, Mr. Johnstone states that he opposes MGE's proposal by stating: "It is not designed to recover costs and provide adequate compensation, but is instead designed to create a penalty where there is no need for a penalty."

In addition, Mr. Johnstone states on Line 8 of Page 17 that "The purpose of a cash-out is to eliminate the carrying of any gas balances from one month to the next. In other words, by the design of the mechanism, the costs are always contained within a single month. Consequently, there can be no basis for reaching out of one month into the next inasmuch as the costs associated with the next month will be collected in that month when it arrives."

Q. WHY DOES MGE PROPOSES TO USE TWO INDEXES WHEN ESTABLISHING A CASH OUT PRICE?

A. A single price point based on one month's activity does not address the risk MGE Firm Customers have for the replacement cost of supplies sold to LV Customers. A single price point does not address the additional cost MGE Firm Customers may incur for purchasing supplies from LV Customer when these supplies are not needed for firm service. Accordingly, MGE has submitted a proposal to use 2 indices when establishing a Cash Out price.

Q. WHAT IS YOUR VIEW OF MR. JOHNSTONE'S ARGUMENT THAT CASH OUT SHOULD BE BASED ON THE CURRENT ACTIVITY MONTH? (Johnstone Rebuttal testimony Page 17 Lines 7-13)

A. Regardless of whether MGE is either selling gas during a Cash Out or purchasing gas during a Cash Out, these actions have a future impact on MGE Firm Customers. For this reason establishing index prices for Cash Out must have representative market pricing components when it comes to establishing sales and purchase prices.

Q. MR. JOHNSTONE ALSO STATES THAT ALL THE COSTS ASSOCIATED WITH CASH OUT ARE ALWAYS CONTAINED WITHIN A SINGLE MONTH. DO YOU AGREE? (Johnstone Rebuttal testimony Page 17 Lines 10-11)

A. No. The costs incurred by MGE Firm Customers due to Cash Out occur in the months following Cash Out. For example, gas volumes sold to an LV Customer through a Cash Out in September may not be replaced until December, February or March. Volumes purchased in September due to a Cash Out will add to MGE storage balance and defer future purchases.

Q. IS MGE'S CASH OUT TARIFF DESIGNED TO EXTRACT A PENALTY FROM TRANSPORTATION CUSTOMERS?

A. No. Cash Out charges in MGE's current tariff are not penalties; rather, they address cost recovery. The purpose of the Cash Out is threefold:

- To eliminate any carrying cost of any gas balances;
- To provide an incentive for the LV Customer to minimize imbalances; and
- To minimize the cost impact to MGE Firm Customers.

A basic requirement in MGE's existing transportation tariff is for LV Customers to match nominations with usage on a daily basis. Cash Out tariffs are designed to encourage customers to meet these requirements through daily balancing, monthly balancing and/or combinations of the foregoing.

Penalties, on the other hand, are applied to critical periods where either service may be impaired or additional costs are incurred by the provider of transportation service. Penalties are charges assessed during periods when the Company has limited ability to absorb the daily imbalances of LV Customers (i.e. Operational Flow Order (OFO) periods). This definition is established in the current MGE tariff on Page 66 Item (c)

"Penalties During OFO's"

Q. DO YOU AGREE WITH MR. JOHNSTONE'S ARGUMENT THAT MGE'S MONTHLY COST DUE TO LV CUSTOMER ACTIVITY IS "EFFECTIVELY ZERO"? (JOHNSTONE REBUTTAL TESTIMONY PAGE 18 LINE 2)

A. No. MGE's balancing costs with pipelines as reflected in Mr. Johnstone's DEJ REB Schedule 4 speak to the ability of MGE to manage the entire flow from the pipelines to MGE. They are not representative of the impact LV service has in total on MGE. MGE customers incur additional costs above those cited in DEJ REB Schedule 4.

LV Customer imbalances impact MGE Firm Customer costs through:

a) the cost of gas sold in Cash Out;
b) the cost of gas purchased in Cash Out;
c) utilization of the no notice storage service;
d) storage overrun fees;
e) fuel costs;
f) storage fees; and
g) pipeline transportation costs.

Q. PLEASE EXPLAIN HOW MGE IS IMPACTED BY BALANCING COSTS.

A. MGE is impacted in several ways by these costs:

a) The cost of gas sold by MGE in Cash Out - MGE sells gas it owns and must replace that supply. MGE bears the risk of the cost of replacement which may be higher than the Cash Out index rate.

b) The cost of gas purchased in Cash Out - MGE is required to purchase gas from LV Customers it does not need at that time and incurs an additional expense for MGE Firm Customers. The purchase price determined by either the existing tariff or the proposed tariff in either event may be disadvantageous to MGE's Firm Customers. In either event, purchasing supplies not needed increases MGE's cost irrespective of the purchase price. The LV Customer, by nominating more supply than used, makes the decision to sell this excess supply to MGE.

c) MGE has limited control over the LV Customer nomination activity. MGE can cut LV Customer nominations, however this requires that MGE take an active role in reviewing LV Customer nomination and forecasting LV Customer usage. MGE bears the responsibility of prudently purchasing supplies for Firm Customers, however this responsibility should not extend to managing the over nominations of LV Customers.

d) Utilization of the no notice storage service - LV Customers who either over-nominate or under-nominate on any day gain free access to storage services held by MGE's Firm Customers. Under the current tariff and proposed tariff LV Customers do not pay for this service. Storage overrun fees - the fees are incurred when daily injection or withdrawal rates established by the Storage Operators are exceeded.

e) Fuel costs - pipeline companies charge fuel for transporting supplies and for providing storage services.

f) Storage fees – daily storage fees are applied for all gas injected into Southern Star Central Gas Pipeline storage.

g) Pipeline transportation costs. - Pipeline companies charge reservation fees for firm capacity transportation rights. In addition pipelines charge a commodity rate and fuel rate.

Q. WHICH ARE THE MOST SIGNIFICANT OF THESE BALANCING COSTS?

A. The cost of gas sold or purchased can be significant depending on the purchase cost or replacement cost. For example:

Gas purchased in January 2007 at $6.81 would replace supplies that could have been purchased in a later month as low as $4.72.

Gas sold in September 2007 at a price of $5.33 could be replaced in December 2007 at a price of $6.18 or possibly in March 2008 at a price of $8.05.

Storage is a significant cost with fixed and variable pricing components. For Southern Star Central Pipeline ("SSC") storage service, MGE pays an average of 60 cents per dth for gas cycled through the storage assets. For Panhandle Eastern Pipeline ("Panhandle") storage service MGE pays an average of 90 cents per dth for gas cycled through storage.

Fuel costs are variable and significant. They vary by pipeline but for SSC average around 3% for transportation and 3% for storage injection. At the average gas purchase price of $6.5 the last 4 years these add approximately 20 cents per dth for transportation and 20 cents per dth for storage injection costs. Transportation costs are significant as MGE pays 32.75 cents (plus commodity) for SSC firm transportation and 32.06 cents on Panhandle.

The total of these costs on SSC is $ 1.3275/dth

Using a similar analysis, the total of these costs on Panhandle is $1.49/dth

Q. MR. JOHNSTONE ASSERTS IN HIS REBUTTAL TESTIMONY THAT "THERE IS EVERY INDICATION THAT THE CURRENT MONTHLY CASH-OUT PROVISIONS ARE WORKING AS INTENDED TO ENCOURAGE CUSTOMERS TO MAINTAIN A BALANCE OF SUPPLIES AND USAGE TO THE MAXIMUM PRACTICAL EXTENT ON A MONTHLY BASIS." (PAGE 18 LINE 9-11) DO YOU AGREE WITH MR JOHNSTONE THAT THE CURRENT MONTHLY BALANCING TARIFFS ARE NOT DEFICIENT?

A. No, the current tariff is deficient in the following respects:

a) The transportation component presently paid to over-nominated customers gives customers an incentive to over-nominate supplies to MGE.

b) The monthly 10% tolerance based on nomination is a very wide tolerance in that it gives the customer the opportunity to either sell MGE gas at a time when the Cash Out index is higher than supply purchased by the LV Customer or to buy gas from MGE when the Cash Out index is lower than the LV Customer's cost of supply. Reducing the tolerance from 10% to 5% reduces this opportunity.

c) When MGE is forced to purchase supply through Cash Out, MGE makes the purchase based on a single month's index. MGE's Firm Customers should be afforded a lower of two indices. When MGE is forced to sell through Cash Out, MGE makes the purchase based on a single month's index. MGE's Firm Customers should sell at the higher of two indices.

d) The current monthly balancing provisions do not address daily over-nominations or under-nominations. This activity occurs on a regular basis, particularly on weekends where customers over-nominate followed by under-nominations on week days. This activity can impact MGE storage operations.

Q. PLEASE EXPLAIN WHY MGE CONSIDERS THE PROPOSED CHANGES AS COMPLEMENTARY INSTEAD OF PUNITIVE.

A. The proposed tariffs work together to encourage LV Customers to manage nominations in line with consumption. See, MGE tariff page 59.1 Item 5 Nominations and MGE tariff page 60 Item 7 Daily Quantity of Transportation Service Gas. The current MGE tariff clearly states that customers must nominate daily volumes in line with daily usage. The following measures are designed to encourage LV Customers to manage their daily nominations in line with daily consumption and to reduce imbalances on MGE's system, without the implementation of daily balancing:

a) Removing the transportation component from purchases removes an incentive for LV Customers to over-nominate supply. It also removes an expense that MGE customers have already incurred.

b) Changing the monthly tolerance from 10% to 5% reduces the volume of gas that can be purchased from MGE or sold to MGE without a reduction on value to the customer.

c) Changing the Cash Out index to the lower of the two adjacent month's indices provides some protection to MGE Firm Customer and reduces the incentive an LV Customer may have to sell gas to MGE.

d) Conversely changing the Cash Out index to the higher of the two adjacent month's index prices provides some protection to MGE Firm Customer and reduces the incentive for LV Customer to purchase supply from MGE.

These measures are accepted industry practice for normal balancing operations as cited in the tariffs referenced in my testimony. In that sense, they are not punitive. These measures are complementary in that they encourage the LV Customers to adopt reasonable practices for the nominations of supplies and provide some measure of protection for MGE's Firm Customers in providing the Cash Out balancing service.

MGE has made these proposals as measures to meet the purpose and requirement for LV Customers to reasonably nominate volumes in line with usage, without making a recommendation to add a daily balancing tariff.

Q. CAN YOU PROVIDE INFORMATION WHICH SUPPORTS THE NEED TO CHANGE MGE'S MONTHLY CASH OUT TARIFF?

A. Yes. First I would like to point to the current MGE tariff language which states on page 59.1 Item 5:

> "Nominations: A transportation service customer or the customers 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."

In addition MGE's tariff also requires on Page 60 Item 7:

> "Daily Quantity of Transportation Service Gas: The Customer will, as nearly as practicable, have delivered to the Company, and shall take redelivery from the 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."

Attached as Schedule DNK-4HC is a table that shows the percentage of time during which an LV Customer or an Agent's pool have not nominated supply within 10% of daily usage. I have analyzed this information for the first 8 months of 2009 and determined that the three largest agents nominated on a daily basis either 10% more than usage or 10% less than usage during **69** percent of the 243 days during this periods. The same information for the three largest LV Customers shows that nomination exceeding the 10% tolerance for ** ** percent of the 243 days during this period.

This activity clearly illustrates the need for MGE had to propose changes to the tariff provisions addressing monthly Cash Out to encourage customers to reduce the over-or-under nominations activity.

Q. WILL LV CUSTOMERS BE AFFECTED BY CHANGING THE 10% BALANCING TOLERANCE TO 5%?

A. No. MGE's analysis of monthly balancing tolerance in 2008 and 2009 shows that ** ** percent of the LV Customers and agents balance at less than a 5% tolerance. This illustrates that the 5% tolerance can be achieved by closely monitoring monthly usage with the information provided by the MGE internet based information system. (See Schedule DNK-5HC).

PERIODS OF DAILY BALANCING (PODB)

Q: DOES MGE HAVE CUSTOMERS WHO UNDER-NOMINATE?

A: Yes, MGE has customers who regularly under-nominate. To address the concern expressed by Mr. Johnstone that the right to invoke Periods of Daily Balancing PODB as contained in the proposed tariff are arbitrary, MGE does not oppose a limitation that a PODB can be called by MGE in the event a LV Customer or Agent under-nominates (retainage adjusted receipts) by more than 10% of usage on any of 5 days within a month.

Q. WHY HAS MGE PROPOSED TO INCLUDE PERIODS OF DAILY BALANCING?

A. MGE made this proposal to specifically address LV customers who consistently under-nominate supply and draw supplies from MGE's firm customers.

OPERATIONAL FLOW ORDERS (OFO)

Q. PLEASE PROVIDE AN EXPLANATION OF AN OFO AND WHY MGE REQUIRES THIS AUTHORITY.

A. An Operational Flow Order ("OFO") is rarely used, but maybe called by MGE when necessary to protect the assets serving all customers - irrespective of whether the assets are MGE pipeline or gas facilities under contract with other parties such as upstream pipelines. MGE may call an OFO when service is threatened to existing customers or in order to comply with the requirements of upstream pipelines. An OFO requires LV Customers to control nominations for gas flowing to MGE.

Q. DO YOU AGREE WITH MR. HAUBENSAK THAT A COMPANY SUCH AS MGE SHOULD NOT BE ALLOWED TO CALL AN OFO IF THE INTERSTATE PIPELINE COMPANY HAS NOT CALLED AN OFO? (REBUTTAL PAGE 12, LINES 10-23)

A. No. One can use the Mid America Energy tariff as an example to illustrate the conditions under which MGE will call an OFO without the interstate pipeline calling an OFO. This tariff was provided in Mr. Habensak's testimony:

(Note that the terms OFO and Critical day have the same meaning – Haubensak Rebuttal testimony Page 5 Lines 4-8)

> "Critical Day - A Critical Day shall be a day which may be declared by the Company *whenever any of the following five conditions occurs or is anticipated to occur:*
>
> (a) when the Company experiences failure of transmission, distribution, gas storage or gas manufacturing facilities;
>
> (b) when transmission system pressures or other unusual conditions jeopardize the operation of the Company's system;
>
> (c) when the Company's transportation, storage, and supply resources are being used at or near their maximum rated deliverability;
>
> (d) when any of the Company's transporters or suppliers call the equivalent of a Critical Day; or
>
> (e) when the Company is unable to fulfill its firm contractual obligations or otherwise when necessary to maintain the overall operational integrity of all or a part of the Company's system.

To complement the Critical Day information provided in Mr. Haubensak's testimony, Mid America Energy's (MAE) Iowa tariff outlines the conditions where it may call an OFO:

"(i) Operational Flow Order (OFO): The Company may call an OFO on customers behind a specific pipeline, delivery zone, town border station; on a marketer, agent, group of customers, or specific customer. This OFO will result in requiring customers that the OFO was called on to balance gas volumes under either the Short or Long Critical Day provisions. The OFO will remain in effect until the operational condition requiring its issuance has been remedied. The type of OFO call and process the Company will use is as follows:

RATE DESIGNATION: General Terms and Conditions
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OFO call by pipeline, Delivery Zone, or Town Border Station (TBS).

The Company will call a Short or Long Critical Day on a specific pipeline, delivery zone, or TBS for the following reasons:

1. When the Company experiences failure of transmission, distribution, gas storage or gas manufacturing facilities.

2. When transmission system pressures or other unusual conditions jeopardize the operation of the Company's system.

3. When the Company's transportation, storage, and supply resources are being used at or near their maximum rated deliverability.

4. When any of the Company's transporters or suppliers call the equivalent of a Critical Day.

5. When the Company is unable to fulfill its firm contractual obligations or
otherwise when necessary to maintain the overall operational integrity of all or a portion of the Company's system.

OFO call by a marketer, agent, group of customers, or specific customer. The Company will call a Short or Long Critical Day on a marketer, agent, group of customers or specific customer when in the Company's judgment, the OFO is necessary to maintain or restore operational integrity when a marketer, agent, group of customers, or specific customer is significantly delivering long or short during periods of significant gas price changes."

Under the terms of its tariff, MAE may call either an OFO or a Critical Day during any of those four conditions and when a pipeline company has not called an OFO. See Items 1, 2, 3 and 5. In addition, MAE may call a Critical Day or an OFO, when the pipeline company has called the equivalent of a Critical Day (an OFO). Also MAE is not required to call an OFO when the MAE's transporter calls the equivalent of a Critical Day (OFO).

MGE's OFO language starts on Page 61.4 of its current tariff as shown below:

(2) Critical Use Periods: Company may issue an Operational Flow Order (OFO) whenever necessary to instruct customer~~s~~ to control their usage to avoid either Under-Deliveries or Over-Deliveries. The Company will specify in the OFO whether customers are required to avoid Under-Deliveries, Over-Deliveries, or both

(a) Standard OFO: A Standard OFO shall require the customer to take, preemptive or preventive 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.

(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.

MGE's language gives the Company the right to issue an OFO and "require the customer to take, preemptive or preventive actions and/or measures in order to neutralize or reduce threats to, or to otherwise preserve the integrity of all or a portion of the Company's system, or to insure compliance with the requirements of upstream pipeline companies." This language, as does the MAE language as shown in items 1, 2, 3 and 5 above, preserves the right for a utility such as MGE or MAE to call an OFO as needed to protect the integrity of the company's distribution system or to insure compliance with the requirements of the upstream pipeline companies.

Q. **HAS MGE RECENTLY CALLED AN OFO THAT ILLUSTRATES WHY IT SHOULD BE ABLE TO DO SO EVEN WHEN AN INTERSTATE PIPELINE HAS NOT CALLED AN OFO?**

A. Yes. In September 2009, MGE called an OFO (See Schedule DNK-1 A) to insure compliance with the storage requirements of upstream pipeline companies and the System Notice issued by Southern Star Central. (See Schedule DNK-2) MGE limited the OFO to only Southern Star Central and Kansas Pipeline Company, as supplies into Kansas City and MGE's SSC storage assets would have been impacted MGE's OFO was narrowly tailored to the potentially affected areas, as it specifically excluded LV Customer transportation on Panhandle Eastern Pipeline. In this regard, MGE would also be in compliance with the MAE tariff, specifically item 3." When the Company's transportation, storage, and supply resources are being used at or near their maximum rated deliverability."

On October 8, 2009 SSC issued an OFO for storage services (see Schedule DNK-3). MGE believes that the LV Customers management of nominations during September 2009 may have avoided the need for SSC to call the OFO at an earlier date.

Q. WHAT SPECIFIC LANGUAGE IN THE AUGUST 31, 2009 SSC SYSTEM NOTICE AFFECTED MGE?

A. From the System Notice:

- "Firm Storage Injections will be limited to MDIQ (maximum daily injection quantity) and Firm Storage Injection AOS (authorized overrun service) will not be allowed. MDIQ overruns will be allowed on any non-physical injection and transfer of gas currently in storage.

- If customers do not adhere to this request, Southern Star could issue an OFO on short notice
- These restrictions are expected to remain in effect until Sunday, November 1, 2009 at 9:00 AM."

Q. WHY DID MGE CALL THE OFO?

A. In September 2009 MGE was planning to fully utilize the SSC injection capacity up to 100% of capacity for MGE's Firm Customers. MGE had no additional injection capacity to provide for LV Customer over-nominations.

Q. DO YOU AGREE WITH MR. HAUBENSAK'S STATEMENT THAT "APPROVAL OF ALL OF THESE [MGE'S PROPOSED TRANSPORTATION TARIFF CHANGES IN THIS CASE] CHANGES MEANS MGE WOULD BE AT TIMES PENALIZING MARKETERS AND CUSTOMERS PURCHASING THEIR OWN GAS SUPPLIES BY ADJUSTING THE CASH OUT PRICE WHEN MGE IS NOT BEING SUBJECT TO THE SAME PROVISIONS IN THE APPLICABLE INTERSTATE PIPELINE TARIFF."

A. No. MGE and the LV Customers are both subject to the same provisions in the applicable pipeline tariff. To the extent that either MGE or the LV Customer create an overrun expense or incur a penalty, MGE will pass those charges and cost to the appropriate party, whether MGE or LV Transportation Customer. Refer to MGE current tariff on page 61.3 Item (11).

In addition, during the September 2009 OFO MGE issued the OFO for over-nominations which give the LV Customer a 5% daily over-nomination tolerance before any penalty is charged. MGE's OFO tariff provides for a 5% daily tolerance for either over-nominations, under-nominations, or both, declared in the OFO notice.

Q. SHOULD THE COMMISSION RESTRICT MGE FROM CALLING AN OFO EXCEPT WHEN AN INTERSTATE PIPELINE CALLS AN OFO?

A. No. The MAE Critical Notice (synonymous with OFO) tariff is a good example of the conditions under which a company such as MGE or MAE needs to call an OFO when the interstate pipeline is not calling an OFO.

Q. WOULD MGE OBJECT TO ADOPTING THE MAE LANGUAGE FOR OFO'S?

A. No.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.