

Exhibit No.: _____
Issue: Transportation Tariffs
Witness: David N. Kirkland
Sponsoring Party: Missouri Gas Energy
Case No.: GT-2010-0261
Date Testimony Prepared: May 25, 2010

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GT-2010-0261

DIRECT TESTIMONY OF

DAVID N. KIRKLAND

Jefferson City, Missouri

May 2010

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In re Missouri Gas Energy's Revised
Transportation Tariff

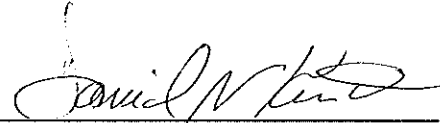
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Case No. GT-2010-0261

AFFIDAVIT OF DAVID N. KIRKLAND

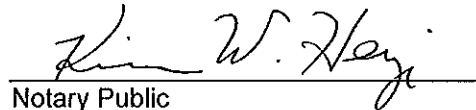
STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

David N. Kirkland, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Supplemental Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Supplemental 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.



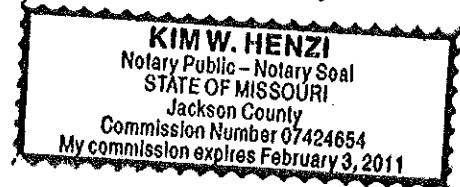
DAVID N. KIRKLAND

Subscribed and sworn to before me this 25th day of MAY 2010.



Notary Public

My Commission Expires: Feb. 3, 2011



DIRECT TESTIMONY OF
DAVID N. KIRKLAND
CASE NO. GT-2010-0261
MAY 2010

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**DIRECT TESTIMONY OF
DAVID N. KIRKLAND
CASE NO. GR-2010-0261
May 2010**

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

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

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

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

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND EMPLOYMENT**
10 **BACKGROUND.**

11 A. My formal education includes a Bachelor of Science degree in Civil Engineering
12 from New Mexico State University and professional development programs at
13 the University of Colorado and the University of Michigan. My industry
14 experience and employment history includes:

- 15 • 1973 – 1982: Southern Union Gas Company; The City of Las Cruces,
16 New Mexico; Northwest Pipeline Corporation; Gas Company of New
17 Mexico - Engineer and Senior Engineer positions.
- 18 • 1982 – 1986: Gas Company of New Mexico - Operations Manager, San
19 Juan District; Responsible for all technical operations of a natural gas
20 gathering and transmission system comprised of 2700 wells, 900 miles of
21 gathering line, 750 miles of transmission pipeline and compression
22 operations.
23 operations.

- 1 • 1986 – 1988: Public Service Company of New Mexico - District Manager,
2 San Juan District; Responsible for all operations of the San Juan District
3 natural gas gathering and transmission systems.
4
- 5 • 1988 – 1991: Public Service Company of New Mexico - Director Volume
6 Control; Responsible for gathering systems production control, gas
7 purchase contract obligations, gas transportation functions and
8 negotiating contract settlements.
9
- 10 • 1991 – 1997: Public Service Company of New Mexico - Director
11 Transmission Engineering; Responsible for transmission facility planning,
12 storage operations, reservoir engineering, transmission systems
13 engineering, and business case development for new market
14 opportunities.
15
- 16 • 1997 – 2002: Public Service Company of New Mexico - Director Gas
17 Systems Operations and Engineering; Responsible for supply planning,
18 interstate transportation agreements, transmission facility planning,
19 storage development, facility engineering and compressor operations.
20
- 21 • 2002 - Present - Missouri Gas Energy - Director of Gas Supply
22

23 **Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AS MGE'S DIRECTOR**
24 **OF GAS SUPPLY?**

25 A. The primary responsibilities of this position are threefold: the planning and
26 acquisition of a supply and capacity portfolio to provide reliable gas service to
27 MGE's customers; the daily management of the supply and capacity portfolio to
28 minimize cost to customers; the management of MGE's services for customers
29 who purchase and deliver their own supply for transportation by MGE and
30 regulatory responsibilities associated with these assigned responsibilities.
31
32

BACKGROUND

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. MGE entered into a Partial Stipulation and Agreement in its recent rate case, Case No. GR-2009-0355, related to the transportation threshold in its transportation tariffs. The purpose of my testimony is to explain the changes that MGE has proposed related to its transportation thresholds and the reasoning behind those changes.

Q. PLEASE DESCRIBE WHAT AGREEMENTS MGE MADE IN ITS LAST RATE CASE RELATED TO TRANSPORTATION THRESHOLDS.

A. In the Case No. GR-2009-0355 Partial Stipulation and Agreement, MGE agreed to the following:

- That MGE had no objection in principle to lowering the threshold for eligibility for transportation service;
- That no later than March 15, 2010, MGE would file revised transportation tariff sheets lowering the threshold for eligibility to include larger customers within the LGS rate class of MGE with a proposed effective date of September 1, 2010. The intent was to implement these tariffs in time to enable new transportation customers to be able to opt-in to transportation service for the 2010-2011 heating season.
- That a new case would be established (which is the present case) which would examine and resolve issues attendant to lowering the transportation

1 volume threshold on MGE's system, with the goal of implementing that
2 service no later than November 1, 2010.

- 3 • All parties to Case No. GR-2009-0355 would be permitted to participate in
4 the new case without filing applications for intervention. Other parties would
5 be allowed to intervene and participate in accordance with applicable
6 Commission rules.
- 7 • The revised transportation tariff would reflect, among other things, the cost
8 of telemetry equipment to transportation customers, which shall be no more
9 than the actual, new cost of installed telemetry equipment.

10
11 **Q. DID MGE FILE TRANSPORTATION TARIFF SHEETS AS REQUIRED IN THE**
12 **PARTIAL STIPULATION AND AGREEMENT?**

13 A. Yes. MGE filed proposed transportation tariff sheets that addressed the issues
14 specified in the Partial Stipulation and Agreement on March 15, 2010. These
15 tariff sheets were assigned tracking number JG-2010-0565.

16
17 **TRANSPORTATION THRESHOLDS**

18
19 **Q. WHAT ARE THE CURRENTLY EFFECTIVE TRANSPORTATION**
20 **THRESHOLDS?**

21 A. Under MGE's current tariffs, customers who use more than 15,000 Ccf of natural
22 gas in any one month and schools covered under the school transportation
23 program are eligible for transportation service.

1
2 **Q. WHAT IS TRANSPORTATION SERVICE?**

3 A. Customers qualifying for transportation and electing this service purchase their
4 own natural gas, make arrangements to have the supply delivered to the MGE
5 distribution system, and pay MGE to deliver the gas to the customer's meter.
6 Most customers do not qualify for the transportation service and are known as
7 firm sales customers.
8

9 **Q. PLEASE EXPLAIN MGE'S PROPOSAL TO REDUCE THE**
10 **TRANSPORTATION THRESHOLD.**

11 A. In the tariffs that are the subject of the present case, MGE has proposed that
12 transportation service be made available to those customers whose annual
13 usage exceeds 50,000 Ccf in the preceding calendar year, with a three-year
14 phase-in period. During the phase-in period, transportation service would be
15 made available to those customers whose usage exceeds 100,000 Ccf in the
16 preceding year in the first year (2010), 70,000 Ccf in the second year (2011) and
17 50,000 Ccf in the third year (2012).
18

19 **Q. WHY DID MGE PROPOSE A THREE-YEAR PHASE-IN PERIOD INSTEAD OF**
20 **OPENING UP THE SERVICE TO ALL INTERESTED CUSTOMERS**
21 **IMMEDIATELY?**

22 A. Mainly, the issue relates to staffing. A three-year phase-in period was calculated
23 to ensure that MGE can meet demand for transportation service. MGE does not

1 know the exact number of customers who wish to move to transportation service
2 and the Company wants to ensure that it is able to meet that demand. MGE is
3 not staffed to respond to a sudden increase in demand for transportation service
4 – either with field personnel who install the equipment or with office personnel
5 who would handle increased paperwork and billing.
6

7 **Q. WHAT STAFF DOES MGE CURRENTLY HAVE TO ADDRESS THESE**
8 **ASPECTS OF ITS TRANSPORTATION SERVICE?**

9 A. Currently the staff consists of a superintendent, two electronic measurement
10 specialists who install the new meters and maintain and troubleshoot the existing
11 electronic metering equipment and a system administrator. On the billing side
12 there is one transportation specialist.
13

14 **Q. IS MGE WILLING TO ADD ADDITIONAL STAFF TO ADDRESS THESE**
15 **RESPONSIBILITIES?**

16 A. MGE believes that it would not be prudent to add additional staff or make
17 promises to account for a yet-unknown demand. A three-year phase in period is
18 designed to ensure that MGE can manage such demand appropriately.
19
20
21
22
23

STRANDED COSTS

Q. WHAT CONCERNS DOES MGE HAVE RELATED TO THE POTENTIAL FOR STRANDED INTERSTATE TRANSPORTATION CAPACITY?

A. As noted in its recent rate case, MGE has had concerns related to the proposal to expand the eligibility of customers who qualify for transportation service. Specifically, MGE has been concerned about stranded interstate transportation capacity.

Q. HOW DOES MGE PROVIDE FOR THE INTERSTATE CAPACITY NEEDS OF ITS EXISTING FIRM SALES CUSTOMERS?

A. MGE has long-term transportation and storage capacity contracts in order to serve its firm sales customers.

Q. WHAT IS THE CONSEQUENCE IF A FIRM SALES CUSTOMER CHANGES TO THE TRANSPORTATION SERVICE?

A. Firm service customers who change to transportation service will no longer require service under MGE's interstate pipeline contracts. Under MGE's tariff provisions, MGE's remaining customers would pay for the cost of the interstate transportation capacity that was purchased for those customers who change to transportation service.

1 Q. HOW HAVE MGE'S PROPOSED TARIFF SHEETS ADDRESSED THIS
2 POTENTIAL FOR STRANDED COSTS?

3 A. In MGE's proposed tariffs, we have proposed that as a condition of a customer
4 being able to transfer from sales service to transportation service, the customer
5 or pool operator would agree to accept a pro-rata release of the Company's pro-
6 rata share of the applicable interstate pipeline's firm capacity, excluding storage
7 capacity. This pro-rata share would be based on the customer's peak month
8 demand volume in order to pay the pipeline for that released capacity. The
9 interstate pipeline transportation capacity cost is derived from MGE's interstate
10 pipeline transportation contracts.

11
12 **TELEMETRY AND ELECTRONIC GAS MEASURING EQUIPMENT**
13

14 Q. HOW HAS MGE ADDRESSED TELEMETRY OR ELECTRONIC GAS
15 MEASUREMENT ("EGM") EQUIPMENT IN ITS PROPOSED TARIFFS?

16 A. Consistent with its current tariffs, MGE would require that all transportation
17 customers have EGM equipment.

18
19 Q. PLEASE DESCRIBE THE EGM EQUIPMENT REQUIREMENTS FOUND IN
20 MGE'S CURRENT TARIFFS.

21 A. EGM equipment is required on all transportation meters to record all of the
22 customer's natural gas usage. MGE installs, owns, and operates all EGM

1 equipment. A data link (dedicated telephone line) from the EGM equipment is
2 necessary to transmit usage data to MGE.

3
4 **Q. WHAT IS THE COST OF THIS EQUIPMENT?**

5 A. MGE charges the actual installed cost of EGM equipment, which may not exceed
6 \$5,000 per meter site and \$2,000 per each additional instrument point. In an
7 effort to alleviate the need for customers to pay full upfront cost for EGM
8 equipment, the Company permits customers to finance the EGM equipment over
9 a three year period at 8% per annum. (See Sheet Nos. 70 - 71.1).

10
11 **Q. WHY IS THE CUSTOMER REQUIRED TO PAY FOR THE EGM EQUIPMENT**
12 **USED AT THEIR LOCATION?**

13 A. This is the only way MGE knows to assign the equipment costs in a way that will
14 not require firm sales customers or the existing transportation customers to
15 subsidize those customers desiring to take the transportation service.

16
17 **Q. WHY IS IT IMPORTANT FOR ALL TRANSPORTATION CUSTOMERS TO**
18 **HAVE EGM EQUIPMENT IN PLACE?**

19 A. Telemetry equipment provides daily usage information necessary for
20 transportation customers to manage their business by enabling them to adjust
21 daily nominations in kind with daily usage. MGE also requires its transportation
22 customers to have EGM equipment to ensure that MGE is able to effectively
23 manage its gas supply operations. MGE believes that the best way that it can

1 accurately manage its gas supply is by using a metering system which monitors
2 a transportation customer's usage on a real-time basis. In managing the gas
3 supply and interstate pipeline transportation portfolio, MGE's Gas Supply and
4 Transportation Services Department benefits by knowing the daily impact of
5 transportation customer activity on MGE's storage assets and capacity
6 utilization.

7
8 **Q. WILL THE NEW TRANSPORTATION CUSTOMERS HAVE ANY OTHER**
9 **SPECIAL PROVISIONS THEY WILL NEED TO ADHERE TO?**

10 A. The new LGS Transportation customers will be subject to the same
11 Transportation Provisions in MGE's tariff (Sheets Nos. 59 – 69) to which the
12 current LV and School Transportation customers are subject. This will include,
13 but is not limited, to the provisions covering aggregation and pooling,
14 nominations, quality of gas, monthly cash out, priority of service, operational flow
15 orders and periods of curtailment.

16
17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes, at this time.