

**Exhibit No.:**

**Issues:**

**Witness:**

**Type of Exhibit:**

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**Case No:**

**MKP/RPC Pipeline**

**Adjustment**

**Joan A. W. Schnepf**

**Rebuttal Testimony**

**Mid-Kansas Partnership/Riverside  
Pipeline Company, L.P.**

**GR-96-450**

**MID-KANSAS PARTNERSHIP/RIVERSIDE PIPELINE COMPANY, L.P.**

**REBUTTAL TESTIMONY**

**OF**

**JOAN A. W. SCHNEPP**

**FILED<sup>2</sup>**

**OCT 12 2001**

**Missouri Public  
Service Commission**

**MISSOURI GAS ENERGY**

**A division of**

**Southern Union Company**

**CASE NO. GR-96-450**

**Exhibit No. 7**

**Date 9/12/01 Case No. GR-96-450**

**Reporter KRM**

**Jefferson City, Missouri  
December, 1998**

# **REBUTTAL TESTIMONY OF**

**JOAN A.W. SCHNEPP**

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1  
2  
3 **BEFORE THE PUBLIC SERVICE COMMISSION**  
4 **OF THE STATE OF MISSOURI**

5  
6 In the matter of Missouri Gas Energy's Gas Cost Adjustment )  
7 Tariff Revisions to be reviewed in Its 1996-1997 Annual ) Case No. GR-96-450  
8 Reconciliation Adjustment Account )  
9

10  
11 **REBUTTAL TESTIMONY OF**  
12 **JOAN A.W. SCHNEPP**  
13

14  
15 **I. Introduction**  
16

17 Q. Would you please state your name and business address?  
18

19 A. My name is Joan A.W. Schnepf and my business address is 8325 Lenexa Drive,  
20 Suite 400, Lenexa, Kansas 66214.  
21

22 Q. By whom and in what capacity are you employed?  
23

24 A. I am employed by Kansas Pipeline Operating Company (KPOC) as Vice-  
25 President of Operations. My prior position was in the capacity of Director of  
26 Transportation and Supply for KPOC. KPOC currently operates the pipeline  
27 facilities owned by Kansas Pipeline Company. Kansas Pipeline Company's  
28 facilities include those facilities previously owned by Kansas Pipeline  
29 Partnership, KansOk Partnership and Riverside Pipeline Company, L.P.  
30

31 Q. Please describe your professional experience.  
32

1 A. From November 1987 to April 1993, I was Manager of Operations for GasTrak  
2 Corporation, a diversified firm headquartered in Overland Park, Kansas, involved  
3 in natural gas marketing, gathering and exploration. I was responsible for the  
4 operational aspects of marketing and purchasing natural gas, including  
5 supervising operations, transportation, accounting and contract administration.  
6 Subsequently, I was employed by Kansas Pipeline Operating Company (KPOC),  
7 as Director of Transportation and Supply. In my position as Director of  
8 Transportation and Supply, I researched, analyzed and implemented strategies for  
9 supply sourcing and system capacity utilization. I was also responsible for  
10 transportation contracts and tariff complaints, as well as the management of the  
11 day to day activities of transportation, nominations and natural gas supply. My  
12 current position is Vice President, Operations. I not only oversee the persons who  
13 perform my former job duties, but I also am responsible for supervising others  
14 who physically operate the pipeline.

15  
16 Q. What is the purpose of your testimony?

17  
18 A. My testimony will address the benefits received by Missouri Gas Energy (MGE)  
19 when it executed the Mid-Kansas II Agreement, on February 24, 1995, which  
20 replaced Mid-Kansas I, as well as the Riverside II Agreement, which provided for  
21 the transportation of 150,000 MMBtu into the MGE system from a source other  
22 than Williams Natural Gas (now known as Williams Gas Pipelines Central,  
23 hereafter referred to as WNG). My testimony will address the prudence of the

1 actions taken by MGE to diversify its portfolio of transportation options.  
2 Specifically, I will examine (i) the superior quality of service guaranteed under  
3 Mid-Kansas II, (ii) the improved price of commodity realized under Mid-Kansas  
4 II, and (iii) why MGE was prudent in executing the Mid-Kansas II Agreement  
5 along with the Riverside II Agreement.  
6

## 7 **II. High Quality of Guaranteed Service Under Mid-Kansas II**

8 Q. Please describe the attributes of the quality of service provided under the Mid-  
9 Kansas II Agreement.  
10

11 A. Mid-Kansas provided high quality service under the Mid-Kansas II Agreement as  
12 further described below:  
13

### 14 ***Firm and warranted***

15 Mid-Kansas II provided this component which is associated with gas supplies  
16 received from 'plant' facilities, not wellhead supply. Low risk natural gas from  
17 plant facilities commands a premium because of its inherent reliability in extreme  
18 weather conditions as compared to wellhead supplies that are more prone to  
19 freeze off. This also required the highest level of supply priority available during  
20 extreme weather conditions and supply curtailment. Simply stated, many  
21 individual wells would have to experience major problems, and lower priority  
22 market commitments would have to be curtailed, before supply reliability affected  
23 the Mid-Kansas supply. Stated differently, a gas plant is an aggregator of

1 supplies and has a much greater margin for error than an individual wellhead. Gas  
2 supplies provided under this category are also not subject to so called "price  
3 majeure" situations. An example of this type of activity occurs when daily spot  
4 prices are high enough to entice producers of natural gas to pull back their gas  
5 supply from one customer and resell to another to take advantage of the higher  
6 price.

7  
8 **Monthly, daily and hourly load following**

9 The Mid-Kansas II Agreement permitted MGE to purchase additional gas, after  
10 the first of the month nominations were made, when additional supplies were  
11 needed and/or to reduce/divert gas supplies to other markets when excess supply  
12 was created by reduced deliveries. Mid-Kansas II, by giving MGE monthly and  
13 daily nomination rights, provided MGE with an excellent tool to manage its  
14 supply needs with a great deal of flexibility. This flexibility is not provided under  
15 gas supply arrangements negotiated on a "base load" or "flat load" basis.

16  
17 Also, Mid-Kansas required hourly load following flexibility from its gas suppliers  
18 in order to meet the hourly load following obligations provided to MGE under the  
19 Mid-Kansas II Agreement. Mid-Kansas was able to provide this hourly flexibility  
20 by managing pressures and imbalances in conjunction with gas supply on the  
21 Transok system.

1           **Peaking**

2           Mid-Kansas has historically provided a peaking component for gas supply to  
3           provide MGE readily available, short notice, firm, warranted, secure supply at any  
4           given time. This component was paid for supply sourced from proven reliable  
5           suppliers.

6  
7           **No notice, balancing, allocation**

8           Mid-Kansas provided for the general availability of gas supply to MGE, often  
9           times with very little notice from MGE. Operating personnel of Mid-Kansas and  
10          MGE worked closely together to increase or decrease supplies to the MGE  
11          system, based in large part on either the increasing or decreasing pressures that  
12          indicated the need for more or less gas supply. In order to provide this service,  
13          Mid-Kansas paid suppliers for this added flexibility. In addition, these supplies  
14          were also purchased directly from 'plant' locations where actual receipts are  
15          monitored, balanced and allocated as purchased and needed.

16  
17        Q.     Does Staff's hypothetical alternative<sup>1</sup> provide MGE with these higher quality of  
18               service components?

19  
20        A.     No. To my knowledge, the services available under Staff's hypothetical  
21               alternative could have only included some minimum level of firm and warranted  
22               service and would not have provided MGE with the equivalent level of firm and

---

<sup>1</sup> Staff's hypothetical alternative to Mid-Kansas II is comprised of a commodity at Williams spot plus 4% transported under WNG's FTS service.

1 warranted service as provided by Mid-Kansas, nor any of the other services  
2 referenced above.

3  
4 Q. Would the services made available to MGE under Mid-Kansas II, command a  
5 premium in excess of Staff's hypothetical calculated price of WNG spot plus 4%?  
6

7 A. Absolutely. Based upon my experience, the Staff's calculated price in their  
8 hypothetical alternative to Mid-Kansas II would not have been sufficient to  
9 acquire the same quality of service provided to MGE under the Mid-Kansas II  
10 Agreement. In fact, producers have historically demanded premiums for  
11 committing to long-term firm contracts with the quality of service components  
12 described above. Producers are generally unwilling to warrant the supply and  
13 demand high take levels or compensation for such service. I'm not aware of any  
14 producer that is willing to offer to produce gas in a manner to follow load on a  
15 daily or more frequent basis without a substantial premium to compensate for the  
16 high quality, premium service.

17  
18 Q. Does Staff's hypothetical alternative to service under Mid-Kansas II provide a fair  
19 basis for comparison?  
20

21 A. No. Staff's recommendation simply uses prices without describing the terms and  
22 conditions of service associated with those prices. Staff's case is erroneous  
23 because we do not know if, under their alternative, there are specific take

1 obligations, take-or-pay charges for failure to take minimum quantities, nor do we  
2 know if the supplies were warranted, would meet the various pipeline segment  
3 requirements under the Transok lease, or whether the suppliers were willing to  
4 follow the MGE loads on a hourly or daily basis. In fact, short term, baseload  
5 type supplies do not meet the requirements, guarantees or load following  
6 flexibility required of the low risk gas supply provided to MGE under the Mid-  
7 Kansas II Agreement. Short term supplies at or near posted index prices are  
8 typically much more prone to interruption, which increases the risk for loss of  
9 supply. In addition, the short term, baseload type supplies purchased by MGE are  
10 received at numerous wellhead receipt points. These wellhead receipt points are  
11 less reliable for meeting MGE's primarily residential load, gas supply  
12 requirements. By less reliable, I refer to actual volume being produced versus  
13 actual volume nominated (requested) and taken by MGE. At the end of each  
14 month, gas supply is balanced between the amount of gas received and the  
15 amount of gas delivered. MGE consistently took more gas from the Mid-Kansas  
16 pipeline system than it actually nominated to Mid-Kansas. This imbalance was  
17 managed by Mid-Kansas under the provisions of the Mid-Kansas II Agreement.

18

19 Q. Please continue

20

21 A. Comparisons cannot be fairly made unless we are comparing like alternatives.  
22 Each of the features in the Mid-Kansas II agreement adds value to the supply  
23 package, as well as making it more costly. However, Staff's hypothetical

1 alternative, ignores the quality of service issue entirely. Such an analysis is the  
2 functional equivalent of expecting a Cadillac to be priced the same as a Ford  
3 Escort because they are both automobiles. A typical WNG spot gas contract is  
4 available for short time periods without option to renew, is typically not reliable  
5 during times of great price movement, contains no warranty as to volume,  
6 requires a relatively high take pattern, and will not be flexible enough for load  
7 following purposes. In automotive terms, it is the economy model Ford Escort  
8 with cloth seats, no air conditioning, no power locks, no power windows and no  
9 cruise control. So, if an expert compares the price of the Cadillac to the price of  
10 the Ford and finds that the Cadillac costs considerably more, and based upon that  
11 price difference, concludes that you paid too much for the Cadillac, it is not  
12 surprising that no one is persuaded by the automotive expert's analysis.

13  
14 Q. Are there any additional quality of service components that are available under  
15 the Mid-Kansas II Agreement, that are not available under Staff's hypothetical  
16 alternative?

17  
18 A. Yes. In addition to all of the specific service components provided to MGE under  
19 the Mid-Kansas II Agreement, Mid-Kansas must comply with the terms of the  
20 Transok Lease. MGE has an understanding of the obligations and intricacies of  
21 the Transok Lease. The opportunities provided by these obligations and  
22 intricacies currently cannot be found elsewhere. MGE has recognized those  
23 opportunities, and has insisted on having an option to take assignment of the

1 Lease, at their discretion, when the Mid-Kansas II Agreement was executed.  
2 Under the Transok lease, Mid-Kansas is required to access the gas supplies under  
3 a rigid allocation formula on various segments of the Transok system. It must  
4 meet the balancing and operating provisions of the Transok system. It must  
5 execute gas supply arrangements that can accommodate MGE's load swings that  
6 can vary anywhere from 2,000 MMBtu to 46,332 MMBtu daily. Mid-Kansas was  
7 required by contract to serve the peak demand (46,332 MMBtu) of MGE on any  
8 day of the year. In addition, the flexibility provided by Mid-Kansas in order to  
9 remain in balance on an hourly, daily and/or monthly basis gives Mid-Kansas  
10 very detailed knowledge of the Transok system. It is imperative that the Transok  
11 Lease is kept in balance. This flexibility is useless if not kept available; therefore,  
12 daily purchases and sales by Mid-Kansas off the Transok system are considered  
13 normal procedure.

14  
15 **III. The Mid-Kansas II Agreement Provides MGE with Superior Commodity Prices**

16 Q. Under the Mid-Kansas II Agreement, how was the natural gas commodity priced?  
17

18 A. The Mid-Kansas II Agreement provided for commodity priced at 105% of the  
19 Transok Spot Index. This compares quite favorably to the pricing provisions  
20 under the Mid-Kansas I Agreement (executed on January 15, 1990 with Western  
21 Resources, as amended on October 3, 1991, and assumed by MGE on January 31,  
22 1994) where commodity was acquired by Mid-Kansas at 114% of a Mid-  
23 Continent Basket pipeline spot price.

1  
2 Q. Could you briefly summarize the commodity price benefits MGE realized by  
3 executing the Mid-Kansas II Agreement on February 24, 1995?

4  
5 A. Quite simply, under the Mid-Kansas II Agreement, MGE was able to source gas  
6 from a historically less expensive supply basin. Though the commodity pricing  
7 under the Mid-Kansas I Agreement was competitive, considering the quality of  
8 service provided, the Transok index has historically been lower than the Mid-  
9 Continent Basket of Spot Prices. Even Thom Shaw, a Staff representative,  
10 acknowledged that the Transok Spot Index has been historically lower (See  
11 **Schedule JAWS 1**, Deposition Transcript of Thomas Shaw, page 55, lines 19-25  
12 and page 56, lines 1-23).

13  
14 Q. While the Commodity costs secured under the Mid-Kansas II Agreement were  
15 superior to the commodity costs secured under the Mid-Kansas I Agreement, are  
16 the Mid-Kansas II commodity costs lower than the Williams spot prices used in  
17 Staff's hypothetical?

18  
19 A. Absolutely. As the attached **Schedule JAWS 2** proves, access to the Transok  
20 system, under the Mid-Kansas II Agreement, has provided MGE with a very  
21 reliable, low cost source of gas supply. **Schedule JAWS 2** clearly reflects that the  
22 gas coming off the Transok system has consistently, year in and year out, offered  
23 MGE and its predecessors access to low cost gas supplies. **Schedule JAWS 2**

1 delineates that the cost of gas off the Transok system is significantly lower than  
2 gas available on the WNG or Panhandle systems. **Schedule JAWS 2** also  
3 demonstrates that the difference between the spot price of gas off Williams and  
4 Panhandle is higher than that available off Transok, and that this differential  
5 increases in the winter months when the demand for gas is at its highest. In other  
6 words, not only does the Transok system offer consistently lower gas supply  
7 prices, but also those price differentials are even more remarkable during the  
8 winter months, during MGE's peak demand for gas supply. As demonstrated by  
9 **Schedule JAWS 2**, the cost of supply off of the Transok system is anywhere from  
10 \$0.13 to \$0.75 per MCF less expensive than supply off of either Panhandle or  
11 Williams.

#### 12 13 **IV. MGE Was Prudent in Executing the Mid-Kansas II Agreement**

14 Q. Are you familiar with the contract provisions of the Mid-Kansas II Agreement  
15 that was executed between Mid-Kansas and MGE on February 24, 1995?

16  
17 A. Yes, I am.

18  
19 Q. In your opinion was MGE prudent in executing the Mid-Kansas II Agreement?

20  
21 A. There is no question that MGE was not only prudent and reasonable in executing  
22 the Mid-Kansas II Agreement, but that they effectively secured for themselves  
23 and for the Kansas City consumers a reliable alternative source of gas supply for

1 an extended period of time. First as I mentioned earlier, the Mid-Kansas II  
2 Agreement provided MGE with access to lower cost gas as described in **Schedule**  
3 **JAWS 2**. The Mid-Kansas II Agreement priced commodity at 105% of the  
4 Transok spot, which is significantly less than the gas cost available off either  
5 WNG or Panhandle. In addition, **Schedule JAWS 3** shows that during the  
6 subject ACA period, the Mid-Kansas II Agreement saved MGE and Missouri  
7 Ratepayers over \$5,000,000 in gas costs. **Schedule JAWS 4** shows that from  
8 June 1, 1995 through May of 1998, the Mid-Kansas II Agreement saved MGE  
9 and Missouri Ratepayers over \$12,000,000.<sup>2</sup> Also, MGE, through the Mid-Kansas  
10 II Agreement, locked in a guaranteed, warranted supply of gas and was able to  
11 obtain a fixed transportation rate until the year 2009. Second, Mid-Kansas II  
12 provided MGE with contractually fixed transportation rates. In other words, the  
13 risk of increased transportation costs were to be borne by Mid-Kansas, including,  
14 but not limited to costs of complying with the Department of Transportation  
15 Safety Regulations, increased personnel costs, increased operating and  
16 maintenance costs, insurance costs, increased property taxes, and all other costs  
17 associated with upstream transportation. The Mid-Kansas II Agreement provided  
18 only for a minimal 2% escalator in transportation charges every three years. This  
19 escalator is well below standard inflation rates. In view of my opinion that MGE,  
20 in 1995, was prudent in their attempts to move away from reliance upon WNG as  
21 the dominant supplier, and in view of the fact that WNG was notorious in the past  
22 for rate increases over the years, locking in a fixed transportation rate for 46,332

---

<sup>2</sup> June 1, 1995 is the effective date of the Mid-Kansas II Agreement. June 1, 1998 is the termination date of the Mid-Kansas II Agreement and the effective date of the Riverside I Agreement, which provides

1 MMBtu per day for an extended period of time was wise diversification on the  
2 part of MGE.

3  
4 Q. In addition to the very favorable commodity price and fixed transportation rates,  
5 were there any other significant benefits from the Mid-Kansas II Agreement?

6  
7 A. Yes, there are several material benefits. First, under the previous Mid-Kansas  
8 Agreement, there was an approximate 4 BCF annual volume limitation. Under  
9 the Mid-Kansas II Agreement, 46,332 MMBtu per day was available to MGE  
10 every day of the year. By eliminating the volume limitation, the Mid-Kansas II  
11 Agreement allowed MGE to maximize their opportunity to purchase less  
12 expensive gas off of the Transok supply basin. In fact, once the limitation was  
13 removed, MGE's volume deliveries more than doubled. Therefore, the removal  
14 of the volume limitation and MGE's increased deliveries under the Mid-Kansas II  
15 Agreement resulted in millions of dollars in savings to MGE and Missouri  
16 ratepayers. Second, the Mid-Kansas II Agreement provided that it would convert  
17 to a transportation only contract, giving MGE the merchant function, a function  
18 desired by local distribution companies, specifically, MGE. (See **Schedule**  
19 **JAWS 5-1**, Deposition Transcript of Michael T. Langston, page 41, lines 11-15).  
20 On February 24, 1995, Riverside Pipeline Company, L.P. (Riverside), an affiliate  
21 of Mid-Kansas, executed the Riverside I Agreement. This Agreement provided  
22 for transportation service only for the same volumes of gas that were sold by Mid-  
23 Kansas to MGE on a bundled basis. The Riverside I Agreement was to become

---

transportation-only service to MGE.

1 effective when Riverside obtained FERC approval for transportation rates for  
2 deliveries from Oklahoma to Missouri. This approval was obtained on April 30,  
3 1998.<sup>3</sup> Therefore, on or about June 1, 1998, deliveries under the Mid-Kansas II  
4 Agreement ceased and deliveries on a transportation only basis were commenced.  
5 Consequently, as a result of the Mid-Kansas II Agreement, MGE currently  
6 possesses the sought after merchant function. Third, under the Mid-Kansas II  
7 Agreement, and now the Riverside I Agreement, MGE possesses the option to  
8 take assignment of the Transok lease; the benefits and flexibility of which were  
9 discussed in Section II of my testimony. Fourth, MGE used the renegotiations  
10 with Mid-Kansas as an opportunity to expand competitive transportation options  
11 in the Kansas City market by executing another contract, Riverside II. This  
12 agreement required Riverside to pay for the construction of a pipeline from  
13 approximately 30 miles south of Kansas City to an interconnection with MGE's  
14 facilities near 107<sup>th</sup> and Elm in Kansas City, Missouri. This new pipeline, which  
15 was ultimately built by KN Interstate Gas Transmission Co.(which bought the  
16 contract and construction work in progress from Riverside), ultimately connected  
17 with the large transportation system of Panhandle Eastern Pipeline Company, as  
18 well as KN's Pony Express pipeline facility, to the distribution facilities of MGE.  
19 Though Riverside sold the Riverside II Agreement to KN Energy, during the  
20 construction phase of the project, the lateral pipeline facility was ultimately  
21 completed. Today, as a direct result of the Riverside II Agreement, MGE has  
22 taken a "positive step" in moving away from reliance upon Williams natural gas

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<sup>3</sup> See 83 F.E.R.C. P61,107

1 transportation services (See **Schedule JAWS 5-2**, Deposition Transcript of  
2 Michael T. Langston, page 44, lines 5-22 and page 56, lines 8-16).

3

4 **V. Conclusion**

5 Q. Could you please summarize your conclusions?

6

7 A. I believe the decision to execute the Mid-Kansas II Agreement, the Riverside I  
8 Agreement, and the Riverside II Agreement, demonstrated prudent management  
9 on the part of MGE. Specifically, the Mid-Kansas II Agreement provided MGE  
10 with (i) a superior quality of service that is not available under Staff's  
11 hypothetical alternative, (ii) a dramatically improved price of gas commodity as  
12 compared to Mid-Kansas I, Williams supply and Panhandle supply, and (iii)  
13 several material benefits, as discussed in Section IV of my testimony, that were  
14 not available to MGE under the Mid-Kansas I Agreement. For all these reasons, I  
15 strongly urge this Commission to reject the disallowance recommended by Staff.

16

17 Q. Does this conclude your testimony?

18

19 A. Yes, it does.

20

21



PUBLIC SERVICE COMMISSION  
STATE OF MISSOURI

In the Matter of Missouri Gas )  
Energy's Gas Cost Adjustment )  
Tariff Revisions to be Reviewed ) Case No. GR-96-450  
in its 1996-1997 Annual )  
Reconciliation Adjustment ) October 28, 1998  
Account. ) Jefferson City, Mo.

DEPOSITION OF THOMAS SHAW,

a witness, produced, sworn and examined on the 28th  
day of October, 1998, between the hours of 8:00 a.m.  
and 6:00 p.m. of that day at the law offices of  
Brydon, Swearengen & England, 312 East Capitol, in the  
City of Jefferson, County of Cole, State of Missouri,  
before

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

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

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1 time, do a comparison of the Mid-Kansas 1 contract and  
2 the Mid-Kansas 2 contract?

3 A. No, I've not made such a comparison.

4 Q. Are you intending to do so in your  
5 testimony?

6 A. No, I don't believe.

7 Q. Have you read Mid-Kansas 1?

8 A. Yes, I have read it.

9 Q. You answered some questions, I believe, that  
10 Mr. Duffy had asked regarding the lower commodity  
11 costs and fixed transportation rates. Do you recall  
12 those questions?

13 A. Yes.

14 Q. Do you recall indicating that the commodity  
15 price and transportation terms were more favorable to  
16 MGE under Mid-Kansas 2 than under Mid-Kansas 1?

17 A. I did make that statement.

18 Q. I don't recall if Mr. Duffy asked this  
19 question. Are you familiar with the fact that under  
20 Mid-Kansas 1 there was a buying limitation of takes to  
21 4 BCF a year, but under Mid-Kansas 2 that volume  
22 limitation was eliminated and MGE had the right to  
23 take 46,332 MMBtu every day?

24 A. I'm aware of that fact, yes.

25 Q. Will you agree that is a favorable provision

1 for MGE as the LDC to have the buying limitation  
2 lifted?

3 A. Certainly since they had access to a cheaper  
4 gas supply, a historically cheaper gas supply, it made  
5 sense to transport as much of that cheaper gas supply  
6 as you possibly could to offset the cost of the  
7 reservation.

8 Q. And that historically cheaper gas you're  
9 referring to is the gas off the TRANSOK system,  
10 correct?

11 A. That's right.

12 Q. When you say historically low cost supply,  
13 is that -- would you agree that TRANSOK supplies has  
14 historically been cheaper than, say, the Williams  
15 supply or Panhandle supply or Mid-Continent supply in  
16 general?

17 A. Certainly through the time where I testified  
18 on the gas supply incentive case, that was the case.  
19 I have not kept up with any differential in the  
20 indices after that point in time.

21 Q. It wouldn't surprise you, then, would it, if  
22 that historical trend continued forward?

23 A. No, that would not surprise me.

24 Q. Are you intending to do a comparative  
25 analysis of those commodity prices for your testimony?

**POSTED PRICE DIFFERENTIALS**  
**PEPL -vs- TOK and WNG -vs- TOK**  
 July 1996 through June 1997

| MONTHS  | PEPL     | TOK       | Posted Price<br>Differential<br>PEPL -vs- TOK | WNG    | TOK       | Posted Price<br>Differential<br>WNG -vs- TOK |        |
|---------|----------|-----------|---|--------|-----------|--|--------|
|         | Mainline | Non-Fuser |   |        | Non-Fuser |  |        |
| Jul '96 | \$2.18   | \$2.01    | \$0.17  | \$2.18 | \$2.01    | \$0.17                                       |        |
| Aug '96 | \$2.13   | \$1.92    | \$0.21  | \$2.14 | \$1.92    | \$0.22                                       |        |
| Sep '96 | \$1.67   | \$1.48    | \$0.19  | \$1.67 | \$1.48    | \$0.19                                       |        |
| Oct '96 | \$1.69   | \$1.49    | \$0.20  | \$1.68 | \$1.49    | \$0.19                                       |        |
| Nov '96 | \$2.51   | \$2.20    | \$0.31  | \$2.50 | \$2.20    | \$0.30                                       |        |
| Dec '96 | \$3.61   | \$2.93    | \$0.68  | \$3.68 | \$2.93    | \$0.75                                       |        |
| Jan '97 | \$4.10   | \$3.65    | \$0.45  | \$4.30 | \$3.65    | \$0.65                                       |        |
| Feb '97 | \$2.77   | \$2.48    | \$0.29  | \$2.81 | \$2.48    | \$0.33                                       |        |
| Mar '97 | \$1.64   | \$1.41    | \$0.23  | \$1.63 | \$1.41    | \$0.22                                       |        |
| Apr '97 | \$1.71   | \$1.52    | \$0.19  | \$1.70 | \$1.52    | \$0.18                                       |        |
| May '97 | \$1.95   | \$1.79    | \$0.16  | \$1.92 | \$1.79    | \$0.13                                       |        |
| Jun '97 | \$2.13   | \$1.92    | \$0.21  | \$2.11 | \$1.92    | \$0.19                                       |        |
| High:   |          |           | \$0.68  | High:  |           |  | \$0.75 |
| Low:    |          |           | \$0.16  | Low:   |           |  | \$0.13 |

Prices from PEPL and WNG are the first of the month posted prices from *Inside F.E.R.C's Gas Market Report* .  
 Prices for TOK are the first of the month posted prices from *Gas Daily Price Guide* .

# CALCULATED SAVINGS TO MGE AND RATE PAYERS

Provided by Mid-Kansas II Contract

July 1, 1996 through June 30, 1997

| MONTHS  | ANR<br>OKLA | NorAm<br>(East) | NGPL<br>OKLA<br>(Texok) | NNG<br>(TX,OK,KS)<br>Field | PEPL<br>Mainline | WNG    | TOK<br>Non-Fuser | 6 Pipeline<br>Index<br>Average | 6 Pipeline<br>Avg. Plus<br>14% | Transok<br>Plus<br>5% | Savings<br>Per<br>MMBtu | Actual<br>MGE<br>Volume | TOTAL<br>SAVINGS |
|---------|-------------|-----------------|-------------------------|----------------------------|------------------|--------|------------------|--------------------------------|--------------------------------|-----------------------|-------------------------|-------------------------|------------------|
| Jul '96 | \$2.18      | \$2.31          | \$2.51                  | \$2.10                     | \$2.18           | \$2.18 | \$2.01           | \$2.24                         | \$2.56                         | \$2.11                | \$0.45                  | 302,206                 | \$135,056        |
| Aug '96 | \$2.14      | \$2.25          | \$2.23                  | \$2.03                     | \$2.13           | \$2.14 | \$1.92           | \$2.15                         | \$2.45                         | \$2.02                | \$0.44                  | 159,536                 | \$70,004         |
| Sep '96 | \$1.67      | \$1.75          | \$1.75                  | \$1.57                     | \$1.67           | \$1.67 | \$1.48           | \$1.68                         | \$1.92                         | \$1.55                | \$0.36                  | 0                       | \$0              |
| Oct '96 | \$1.69      | \$1.74          | \$1.76                  | \$1.64                     | \$1.69           | \$1.68 | \$1.49           | \$1.70                         | \$1.94                         | \$1.56                | \$0.37                  | 145,866                 | \$54,481         |
| Nov '96 | \$2.50      | \$2.47          | \$2.57                  | \$2.48                     | \$2.51           | \$2.50 | \$2.20           | \$2.51                         | \$2.86                         | \$2.31                | \$0.55                  | 792,166                 | \$432,285        |
| Dec '96 | \$3.60      | \$3.61          | \$3.69                  | \$3.52                     | \$3.61           | \$3.68 | \$2.93           | \$3.62                         | \$4.12                         | \$3.08                | \$1.05                  | 1,438,462               | \$1,508,084      |
| Jan '97 | \$4.20      | \$4.15          | \$3.80                  | \$4.08                     | \$4.10           | \$4.30 | \$3.65           | \$4.11                         | \$4.68                         | \$3.83                | \$0.85                  | 1,451,756               | \$1,229,928      |
| Feb '97 | \$2.77      | \$2.78          | \$2.75                  | \$2.73                     | \$2.77           | \$2.81 | \$2.48           | \$2.77                         | \$3.16                         | \$2.60                | \$0.55                  | 1,296,765               | \$715,685        |
| Mar '97 | \$1.63      | \$1.65          | \$1.64                  | \$1.56                     | \$1.64           | \$1.63 | \$1.41           | \$1.63                         | \$1.85                         | \$1.48                | \$0.37                  | 713,137                 | \$265,287        |
| Apr '97 | \$1.71      | \$1.74          | \$1.74                  | \$1.63                     | \$1.71           | \$1.70 | \$1.52           | \$1.71                         | \$1.94                         | \$1.60                | \$0.35                  | 718,774                 | \$249,918        |
| May '97 | \$1.96      | \$2.00          | \$2.03                  | \$1.85                     | \$1.95           | \$1.92 | \$1.79           | \$1.95                         | \$2.22                         | \$1.88                | \$0.35                  | 739,217                 | \$255,326        |
| Jun '97 | \$2.13      | \$2.19          | \$2.24                  | \$2.04                     | \$2.13           | \$2.11 | \$1.92           | \$2.14                         | \$2.44                         | \$2.02                | \$0.42                  | 719,755                 | \$304,888        |
|         |             |                 |                         |                            |                  |        |                  |                                |                                |                       |                         |                         | \$5,220,940      |

Prices from ANR, NorAm, NGPL, NNG, PEPL and WNG are the first of the month posted prices from *Inside F.E.R.C's Gas Market Report*.  
Prices for TOK are the first of the month posted prices from *Gas Daily Price Guide*.

# **CALCULATED SAVINGS TO MGE AND RATE PAYERS**

Provided by Mid-Kansas II Contract

June 1, 1995 through May 31, 1998

| MONTHS  | ANR<br>OKLA | NorAm<br>(East) | NGPL<br>OKLA<br>(Texok) | NNG<br>(TX,OK,KS)<br>Field | PEPL<br>Mainline | WNG    | TOK<br>Non-Fuser | 6 Pipeline<br>Index<br>Average | 6 Pipeline<br>Avg. Plus<br>14% | Transok<br>Plus<br>5% | Savings<br>Per<br>MMBtu | Actual<br>MGE<br>Volume | TOTAL<br>SAVINGS |
|---------|-------------|-----------------|-------------------------|----------------------------|------------------|--------|------------------|--------------------------------|--------------------------------|-----------------------|-------------------------|-------------------------|------------------|
| Jun '95 | \$1.46      | \$1.61          | \$1.45                  | \$1.39                     | \$1.47           | \$1.44 | \$1.26           | \$1.47                         | \$1.68                         | \$1.32                | \$0.35                  | 266,049                 | \$93,862         |
| Jul '95 | \$1.25      | \$1.40          | \$1.24                  | \$1.20                     | \$1.25           | \$1.23 | \$1.08           | \$1.26                         | \$1.44                         | \$1.13                | \$0.30                  | 149,314                 | \$45,436         |
| Aug '95 | \$1.19      | \$1.30          | \$1.20                  | \$1.17                     | \$1.20           | \$1.18 | \$1.04           | \$1.21                         | \$1.38                         | \$1.09                | \$0.28                  | 108,825                 | \$30,863         |
| Sep '95 | \$1.41      | \$1.50          | \$1.41                  | \$1.38                     | \$1.41           | \$1.42 | \$1.19           | \$1.42                         | \$1.62                         | \$1.25                | \$0.37                  | 5,164                   | \$1,917          |
| Oct '95 | \$1.50      | \$1.54          | \$1.50                  | \$1.46                     | \$1.50           | \$1.49 | \$1.27           | \$1.50                         | \$1.71                         | \$1.33                | \$0.37                  | 462,511                 | \$173,257        |
| Nov '95 | \$1.61      | \$1.68          | \$1.61                  | \$1.57                     | \$1.61           | \$1.60 | \$1.40           | \$1.61                         | \$1.84                         | \$1.47                | \$0.37                  | 671,541                 | \$247,933        |
| Dec '95 | \$1.88      | \$2.02          | \$1.88                  | \$1.84                     | \$1.89           | \$1.88 | \$1.72           | \$1.90                         | \$2.16                         | \$1.81                | \$0.36                  | 1,193,197               | \$427,284        |
| Jan '96 | \$2.02      | \$2.09          | \$2.00                  | \$1.93                     | \$2.00           | \$2.03 | \$1.80           | \$2.01                         | \$2.29                         | \$1.89                | \$0.40                  | 1,194,062               | \$481,565        |
| Feb '96 | \$1.79      | \$1.89          | \$1.79                  | \$1.73                     | \$1.81           | \$1.84 | \$1.58           | \$1.81                         | \$2.06                         | \$1.66                | \$0.40                  | 1,162,097               | \$467,744        |
| Mar '96 | \$1.90      | \$1.93          | \$1.97                  | \$1.87                     | \$1.90           | \$1.90 | \$1.74           | \$1.91                         | \$2.18                         | \$1.83                | \$0.35                  | 812,727                 | \$286,324        |
| Apr '96 | \$2.14      | \$2.23          | \$2.23                  | \$2.06                     | \$2.14           | \$2.15 | \$1.98           | \$2.16                         | \$2.46                         | \$2.08                | \$0.38                  | 426,312                 | \$162,638        |
| May '96 | \$2.01      | \$2.12          | \$2.14                  | \$1.95                     | \$2.00           | \$2.00 | \$1.77           | \$2.04                         | \$2.32                         | \$1.86                | \$0.46                  | 390,600                 | \$180,965        |
| Jun '96 | \$2.05      | \$2.18          | \$2.24                  | \$1.98                     | \$2.05           | \$2.03 | \$1.91           | \$2.09                         | \$2.38                         | \$2.01                | \$0.38                  | 310,174                 | \$116,377        |
| Jul '96 | \$2.18      | \$2.31          | \$2.51                  | \$2.10                     | \$2.18           | \$2.18 | \$2.01           | \$2.24                         | \$2.56                         | \$2.11                | \$0.45                  | 302,206                 | \$135,056        |
| Aug '96 | \$2.14      | \$2.25          | \$2.23                  | \$2.03                     | \$2.13           | \$2.14 | \$1.92           | \$2.15                         | \$2.45                         | \$2.02                | \$0.44                  | 159,536                 | \$70,004         |
| Sep '96 | \$1.67      | \$1.75          | \$1.75                  | \$1.57                     | \$1.67           | \$1.67 | \$1.48           | \$1.68                         | \$1.92                         | \$1.55                | \$0.36                  | 0                       | \$0              |
| Oct '96 | \$1.69      | \$1.74          | \$1.76                  | \$1.64                     | \$1.69           | \$1.68 | \$1.49           | \$1.70                         | \$1.94                         | \$1.56                | \$0.37                  | 145,866                 | \$54,481         |
| Nov '96 | \$2.50      | \$2.47          | \$2.57                  | \$2.48                     | \$2.51           | \$2.50 | \$2.20           | \$2.51                         | \$2.86                         | \$2.31                | \$0.55                  | 792,166                 | \$432,285        |
| Dec '96 | \$3.60      | \$3.61          | \$3.69                  | \$3.52                     | \$3.61           | \$3.68 | \$2.93           | \$3.62                         | \$4.12                         | \$3.08                | \$1.05                  | 1,438,462               | \$1,508,084      |
| Jan '97 | \$4.20      | \$4.15          | \$3.80                  | \$4.08                     | \$4.10           | \$4.30 | \$3.65           | \$4.11                         | \$4.68                         | \$3.83                | \$0.85                  | 1,451,756               | \$1,229,928      |
| Feb '97 | \$2.77      | \$2.78          | \$2.75                  | \$2.73                     | \$2.77           | \$2.81 | \$2.48           | \$2.77                         | \$3.16                         | \$2.60                | \$0.55                  | 1,296,765               | \$715,685        |
| Mar '97 | \$1.63      | \$1.65          | \$1.64                  | \$1.56                     | \$1.64           | \$1.63 | \$1.41           | \$1.63                         | \$1.85                         | \$1.48                | \$0.37                  | 713,137                 | \$265,287        |
| Apr '97 | \$1.71      | \$1.74          | \$1.74                  | \$1.63                     | \$1.71           | \$1.70 | \$1.52           | \$1.71                         | \$1.94                         | \$1.60                | \$0.35                  | 718,774                 | \$249,918        |
| May '97 | \$1.96      | \$2.00          | \$2.03                  | \$1.85                     | \$1.95           | \$1.92 | \$1.79           | \$1.95                         | \$2.22                         | \$1.88                | \$0.35                  | 739,217                 | \$255,326        |
| Jun '97 | \$2.13      | \$2.19          | \$2.24                  | \$2.04                     | \$2.13           | \$2.11 | \$1.92           | \$2.14                         | \$2.44                         | \$2.02                | \$0.42                  | 719,755                 | \$304,888        |
| Jul '97 | \$2.01      | \$2.07          | \$2.08                  | \$1.91                     | \$2.01           | \$2.04 | \$1.77           | \$2.02                         | \$2.30                         | \$1.86                | \$0.44                  | 651,117                 | \$289,291        |
| Aug '97 | \$2.06      | \$2.11          | \$2.12                  | \$1.96                     | \$2.06           | \$2.06 | \$1.77           | \$2.06                         | \$2.35                         | \$1.86                | \$0.49                  | 650,023                 | \$319,681        |
| Sep '97 | \$2.42      | \$2.44          | \$2.46                  | \$2.33                     | \$2.42           | \$2.38 | \$2.22           | \$2.41                         | \$2.75                         | \$2.33                | \$0.41                  | 629,880                 | \$261,085        |

Schedule JAWS4

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# **CALCULATED SAVINGS TO MGE AND RATE PAYERS**

Provided by Mid-Kansas II Contract

June 1, 1995 through May 31, 1998

| MONTHS  | ANR<br>OKLA | NorAm<br>(East) | NGPL<br>OKLA<br>(Texok) | NNG<br>(TX,OK,KS)<br>Field | PEPL<br>Mainline | WNG    | TOK<br>Non-Fuser | 6 Pipeline<br>Index<br>Average | 6 Pipeline<br>Avg. Plus<br>14% | Transok<br>Plus<br>5% | Savings<br>Per<br>MMBtu | Actual<br>MGE<br>Volume | TOTAL<br>SAVINGS |
|---------|-------------|-----------------|-------------------------|----------------------------|------------------|--------|------------------|--------------------------------|--------------------------------|-----------------------|-------------------------|-------------------------|------------------|
| Oct '97 | \$3.00      | \$3.05          | \$3.07                  | \$2.86                     | \$3.01           | \$2.98 | \$2.73           | \$3.00                         | \$3.41                         | \$2.87                | \$0.55                  | 343,138                 | \$187,971        |
| Nov '97 | \$3.16      | \$3.17          | \$3.18                  | \$3.09                     | \$3.16           | \$3.15 | \$2.93           | \$3.15                         | \$3.59                         | \$3.08                | \$0.52                  | 752,552                 | \$388,618        |
| Dec '97 | \$2.35      | \$2.37          | \$2.35                  | \$2.28                     | \$2.35           | \$2.37 | \$2.08           | \$2.35                         | \$2.67                         | \$2.18                | \$0.49                  | 572,683                 | \$280,214        |
| Jan '98 | \$2.16      | \$2.16          | \$2.16                  | \$2.05                     | \$2.15           | \$2.15 | \$1.91           | \$2.14                         | \$2.44                         | \$2.01                | \$0.43                  | 1,019,931               | \$440,814        |
| Feb '98 | \$1.92      | \$1.94          | \$1.96                  | \$1.86                     | \$1.93           | \$1.92 | \$1.64           | \$1.92                         | \$2.19                         | \$1.72                | \$0.47                  | 1,297,292               | \$608,041        |
| Mar '98 | \$2.15      | \$2.16          | \$2.19                  | \$2.06                     | \$2.15           | \$2.15 | \$1.86           | \$2.14                         | \$2.44                         | \$1.95                | \$0.49                  | 1,174,989               | \$576,215        |
| Apr '98 | \$2.19      | \$2.20          | \$2.23                  | \$2.06                     | \$2.19           | \$2.18 | \$1.84           | \$2.18                         | \$2.48                         | \$1.93                | \$0.55                  | 749,999                 | \$410,624        |
| May '98 | \$2.18      | \$2.18          | \$2.22                  | \$2.05                     | \$2.18           | \$2.16 | \$1.84           | \$2.16                         | \$2.46                         | \$1.93                | \$0.53                  | 619,999                 | \$330,025        |
|         |             |                 |                         |                            |                  |        |                  |                                |                                |                       |                         | 24,091,816              | \$12,029,685     |

Prices from ANR, NorAm, NGPL, NNG, PEPL and WNG are the first of the month posted prices from *Inside F.E.R.C's Gas Market Report*.  
 Prices for TOK are the first of the month posted prices from *Gas Daily Price Guide*.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas )  
Energy's Gas Cost Adjustment )  
Tariff Revisions to be Reviewed ) Case No. GR-96-450  
in its 1996-1997 Annual )  
Reconciliation Adjustment Account )

DEPOSITION OF MICHAEL T. LANGSTON,

a witness, sworn and examined on the 27th day of  
October, 1998, between the hours of 8:00 a.m. and  
6:00 p.m. of that day at the law office of Brydon,  
Swearengen & England, 312 East Capitol Avenue, in the  
City of Jefferson, County of Cole, State of Missouri,  
before

KRISTAL R. MURPHY, CSR, RPR, CCR  
ASSOCIATED COURT REPORTERS, INC.  
714 West High Street  
Post Office Box 1308  
JEFFERSON CITY, MISSOURI 65102  
(573) 636-7551

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

1

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(573) 636-7551 JEFFERSON CITY, MO 65101

1 from as many alternative pipelines as are available in  
2 our service territories. Now, that may be with or  
3 without any contractual commitment to them, but we do  
4 want to have them as interconnected pipelines.

5 Q. We have described Riverside I, generally  
6 speaking, as the transportation-only version of  
7 Mid-Kansas II where MGE makes the purchasing decisions  
8 and the pipe -- and I'll refer to the Riverside pipe  
9 as all of the pipe from Oklahoma to Missouri -- only  
10 transports it.

11 Is the role of being the purchaser of the  
12 commodity, the gas, something that MGE and Southern  
13 Union generally prefer to have, rather than have the  
14 merchant function held by a third party?

15 A. Generally, that's true.

16 Q. Okay. I believe you -- in answering  
17 questions posed by the MPSC Staff counsel, you were  
18 present and directly involved in negotiations  
19 surrounding the execution of the Mid-Kansas II  
20 agreement; is that correct?

21 A. Yes.

22 Q. And, generally speaking, were you involved  
23 in the negotiations regarding the acquisition of the  
24 Western Local Distribution Company?

25 A. I was not involved in the negotiation of the

1                   BEFORE THE PUBLIC SERVICE COMMISSION  
2                   OF THE STATE OF MISSOURI  
3

4   In the Matter of Missouri Gas           )  
5   Energy's Gas Cost Adjustment        )  
6   Tariff Revisions to be Reviewed     ) Case No. GR-96-450  
7   in its 1996-1997 Annual             )  
8   Reconciliation Adjustment Account   )

9  
10                  DEPOSITION OF MICHAEL T. LANGSTON,

11   a witness, sworn and examined on the 27th day of  
12   October, 1998, between the hours of 8:00 a.m. and  
13   6:00 p.m. of that day at the law office of Brydon,  
14   Swearengen & England, 312 East Capitol Avenue, in the  
15   City of Jefferson, County of Cole, State of Missouri,  
16   before

17  
18                   KRISTAL R. MURPHY, CSR, RPR, CCR  
19                   ASSOCIATED COURT REPORTERS, INC.  
20                   714 West High Street  
21                   Post Office Box 1308  
22                   JEFFERSON CITY, MISSOURI 65102  
23                   (573) 636-7551

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

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1 was a goal of Southern Union and its affiliates to  
2 have a situation where they had alternate pipeline  
3 options, whether it just be interconnect or a  
4 contract, but they have options.

5 In your opinion, did you view the execution  
6 of the Riverside II agreement calling for the  
7 construction of this lateral to connect Panhandle to  
8 your local distribution facilities to be a step in the  
9 direction of less reliance upon Williams Natural Gas  
10 as a server of your transportation needs?

11 A. That was one of the advantages. As I  
12 mentioned previously, I'm not sure in my deposition,  
13 we had identified after we took over the properties  
14 that we had a major need for additional capacity in  
15 the Kansas City area, so this would also have  
16 accomplished that result as well.

17 Q. In your opinion, do you view the Riverside  
18 II agreement as being a positive step towards  
19 pipeline -- on pipeline competition that would benefit  
20 not only MGE, but ultimately the ratepayers in  
21 Missouri?

22 A. Yes.

23 Q. I want to go back to the Mid-Kansas II  
24 agreement, and the commodity price we talked about the  
25 TRANSOK spot plus 5 percent, and you had indicated

1 answer to Mr. Schwarz's question about -- did I  
2 pronounce his name right?

3 MR. SCHWARZ: Close enough.

4 MR. MONALDO: Okay. I want to --

5 MR. SCHWARZ: I don't know. I don't ever  
6 use it.

7 BY MR. MONALDO:

8 Q. In answer to the question regarding the fact  
9 that no volumes actually flowed in Riverside II  
10 because it was assigned and renegotiated, does that  
11 answer detract in any way from your earlier testimony  
12 that you believe the execution of the Riverside II  
13 agreement was a positive step in the right direction  
14 to move away from reliance on Williams Natural Gas for  
15 transportation services?

16 A. No.

17 Q. Okay. You were asked a question on redirect  
18 about whether or not there was more or less reliance  
19 before or after the 24th of February, 1995, on  
20 Williams, so I'll ask you this question: Under the  
21 Mid-Kansas I agreement you were taking roughly up  
22 to -- you had the ability to take up to 4 BCF a year  
23 under the Mid-Kansas I agreement; is that correct?

24 A. That's correct.

25 Q. Okay. And is it correct that obligation was

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