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Issue:	
Witness:	*Christopher A. John*
Sponsoring Party:	*Missouri Gas Company, LLC and Missouri Pipeline Company, LLC*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*GC-2006-0491*
Date Testimony Prepared:	*October ___, 2006*

MISSOURI GAS COMPANY, LLC
MISSOURI PIPELINE COMPANY, LLC

REBUTTAL TESTIMONY

OF

CHRISTOPHER A. JOHN

CASE NO. GC-2006-0491

*****HC denotes HIGHLY CONFIDENTIAL INFORMATION*****

October 6, 2006

REBUTTAL TESTIMONY

OF

CHRISTOPHER A. JOHN

MISSOURI GAS COMPANY, LLC

MISSOURI PIPELINE COMPANY, LLC

CASE NO. GC-2006-0491

Appendix G	July 1, 1999 Transportation Agreement between Missouri Pipeline Company and the City of Cuba, Missouri
Appendix H	July 1, 1999 Transportation Agreement between Missouri Gas Company and the City of Cuba, Missouri
Appendix I	May 17, 2003 Natural Gas Sales and Agency Agreement between Omega Pipeline Company and the City of Cuba, Missouri
Appendix J	April 4, 2004 Natural Gas Sales and Agency Agreement between Omega Pipeline Company and Willard Asphalt Paving, Inc.
Appendix K	August 14, 2004 Natural Gas Sales Agreement between Omega Pipeline Company and G-P Gypsum Corporation
Appendix L	November 22, 2004 Natural Gas Sales Agreement between Omega Pipeline Company and Emhart Glass Manufacturing, Inc.
Appendix M	Natural Gas Sales and Agency Agreement between Ameren and the City of Cuba, Missouri dated July 1, 1995
Appendix N	Omega Pipeline Company Rate Compared to Rates for Cities on Missouri Pipeline Company
Appendix O	Omega Pipeline Company Rate Compared to Rates for Other Customers on Missouri Pipeline Company
Appendix P	Omega Pipeline Company Rate Compared to Rates for Cities on Missouri Gas Company
Appendix Q	Omega Pipeline Company Rate Compared to Rates for Other Customers on Missouri Gas Company
Appendix R	Billing Date Analysis for Missouri Pipeline Company and Missouri Gas Company
Appendix S	Bill Payment Date Analysis for Missouri Pipeline Company and Missouri Gas Company

REBUTTAL TESTIMONY

OF

CHRISTOPHER A. JOHN

MISSOURI GAS COMPANY, LLC

MISSOURI PIPELINE COMPANY, LLC

CASE NO. GC-2006-0491

<u>Introduction and Qualifications</u>

Q. Please state your name and business address.

A. My name is Christopher A. John, my business address is 1155 15th Street, N.W., Suite 400, Washington, D.C. 20005.

Q. Would you please state your occupation?

A. I am a Vice President at the energy consulting firm of Brown, Williams, Moorhead & Quinn, Inc. ("BWMQ"), which has offices in Washington, D.C. and Houston, Texas.

Q. Please briefly state your professional experience and qualifications.

A. Since October 2002, I have provided technical and/or policy assistance as well as expert testimony to numerous electric utilities, natural gas pipelines, oil pipelines, local distribution companies and customers thereof. I have provided consulting services on business, rate and regulatory matters. I have provided testimony on policy, rate design, cost of service and tariff matters before the Federal Energy Regulatory Commission ("FERC") and in several states. A list of proceedings in which I have provided testimony is attached as <u>Appendix A</u>.

From December 1998 to the date of my retirement from FERC in September 2002, I was the technical advisor to FERC Commissioner Linda K. Breathitt. During this time, I was directly involved in advising Commissioner Breathitt on every major rulemaking undertaken by FERC. I was also extensively involved in electric policy matters and was primarily responsible for all rate-related and rate of return issues for Commissioner Breathitt.

From April 1994 until December 1998, I was a team leader in FERC's Division of Pipeline Rates. In this position, I was responsible for drafting memos and orders as advising the FERC Commissioners on numerous complex rate and tariff filings. I worked on filings involving key gas pipeline-related issues and initiatives such as FERC Order No. 636. I supervised and was responsible for team review of filings ranging from compliance filings to complex rate cases.

From January 1989 until April 1994, I was assigned to FERC's Allocation and Rate Design Branch in the Office of Pipeline and Producer Regulation. In this position, I provided expert technical analysis in numerous natural gas pipeline rate proceedings on complex rate design and tariff issues, including market-based rates, mileage-based rates, and contract storage rates. I was also responsible for individual pipeline tariff and rate filings following Order No. 636. In those proceedings all interstate pipelines essentially filed completely revised tariffs and rates to implement FERC's initiative to have pipelines unbundled gas sales and transportation functions.

From the time of my employment with FERC in July 1979 until December 1988, I was responsible for setting depreciation rates and cost of service levels to be used in developing rates for interstate natural gas and oil pipelines. I testified as an expert witness in formal rate and certificate proceedings.

I served in the United States Navy from 1972 until 1975 as an electronics technician.

Q. Would you briefly explain your educational background?

A. I graduated from Frostburg State University in Frostburg, Maryland with a Bachelor of Arts degree in May 1979 with majors in accounting and economics.

Q. On whose behalf are you presenting testimony in this proceeding?

A. I am appearing on behalf of Missouri Pipeline Company ("MPC") and Missouri Gas Company ("MGC").

Q. Please detail your experience with complaints and regulatory staff investigations.

A. The majority of my experience with complaints and staff investigations occurred when I was the Technical Advisor to FERC Commissioner Breathitt from 1998 to 2002.

Q. What is your experience with Standards of Conduct regulations?

A. While I was the technical advisor to FERC Commissioner Breathitt, the Commission initiated a rulemaking, which greatly broadened which affiliated entities would be required to abide by the standard of conduct rules. This rulemaking was entitled FERC Order No. 2004 - Standards of Conduct for Transmission Providers.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony addresses five of the six allegations or counts against MPC and MGC brought by the Missouri Public Service Commission Staff in this proceeding.

Executive Summary

Q. Please summarize your recommendations.

A. My recommendations and the results of my analysis are as follows:

(1) Count One, in part, asserts MPC/MGC failed to maintain separate operational facilities and personnel from any marketing affiliate and that contracts entered into between Omega and MPC/MGC gave preferential treatment to an affiliate. My review of documents shows that MPSC Staff was aware of the fact that MPC/MGC were sharing employees and office space with energy affiliates and, in fact, urged FERC to grant a waiver allowing this sharing of employees. My analysis also shows that the contract negotiated between Omega and MPC/MGC resulted in Omega paying the highest rate for transportation service on both systems, thus there was no preferential treatment for Omega and no other shippers were disadvantaged due to those contracts.

(2) Count Two alleges that MPC/MGC have provided transportation for Omega without an executed Transportation Agreement. Based on my review of transportation agreements, agency agreements, invoices and other relevant data, MGC/MPC have had valid and binding transportation agreements with all shippers.

(3) Count Three alleges that MPC/MGC charged non-affiliate customers higher rates than the rates charged to an affiliate, without approval, thereby overcharging non-affiliated shippers for transportation service. My review indicates that Commission Staff is comparing rates for service under transportation service agreements between MPC and MGC and shippers with payment provisions from gas sales and agency agreements between Omega and various third parties. My review

indicates that it is not appropriate to compare the rates and charges from the gas sales and agency agreements to those set forth in the transportation agreements of other shippers when the functions and services provided are not equivalent. Moreover, the rates paid by Omega, MPC/MGC's former affiliate, are the highest rates being paid on those systems. Consequently, no non-affiliated shippers could be overcharged when compared to the Omega firm transportation contract.

(4) Count Four alleges that MPC and MGC failed to report discounts offered to their affiliates. Mr. Ries addresses this issue in his rebuttal testimony.

(5) Count Five alleges that MGC paid Omega's expenditures related to the cost of constructing, establishing and modifying the MGC facilities required for the delivery of gas to an Omega customer without billing Omega for reimbursement of these expenditures, as required by the MGC Tariff. My review indicates that MGC properly incurred pipeline extension expenses on its own behalf and said actions were prudent business decisions and necessary to meet potential growth on its system. Other shippers ultimately will benefit from MGC retaining and expanding the usage of the MGC system. Based on these factors, I view MGC's actions in making the investment in the facilities to Willard and recording those investments on its books as prudent.

(6) Count Six alleges, that in violation of its tariffs, MPC/MGC have not billed Omega in the same way it has billed other transportation customers. The results of my review of invoicing and payment data showed that MGC/MPC clearly abided by the terms of their tariffs with regard to billing and payment.

<u>Count One – Standards of Conduct</u>

Q. What is the alleged violation of the standards of conduct claimed by Commission Staff?

A. Mr. Schallenberg, at page 9 of his Direct Testimony asserts that MPC/MGC failed to comply with the tariff provisions that require these companies to apply their terms and conditions of service in a uniform and nondiscriminatory manner to non-affiliated shippers as provided to affiliated shippers and to maintain separate operational facilities and personnel from any marketing affiliate.

Q. Please provide more detail on the first allegation concerning the application of the terms and conditions of service.

A. In essence, Witness Schallenberg maintains that MPC/MGC allowed its affiliate, Omega Pipeline Company ("Omega") to carry transportation imbalances while other shippers were required to keep their receipt volumes and their delivery volumes in balance. Mr. David Ries will respond to the portion of the allegations concerning imbalances.

Q. Please provide more detail as to the allegation that MPC/MGC failed to maintain separate operational facilities and personnel from any marketing affiliate.

A. On page 13 of his Direct Testimony, Mr. Schallenberg sets forth his arguments on the alleged shared personnel violation. Mr. Schallenberg maintains that MPC/MGC violated Paragraph 12.b. of their General Terms and Conditions. This paragraph, which contains provisions dealing with marketing affiliates, states:

> "For efficiency purposes, Transporter occupies office space on the same floor as its affiliates, but maintains separate operational facilities and personnel. Operational and

> accounting information is confidentially maintained by Transporter."

Mr. Schallenberg states that "one key violation resulted in most of the misconduct that is the subject of this complaint." Specifically, Mr. Schallenberg states that MPC/MGC allowed confidential operational and accounting information to be shared with Omega that was not available to other shippers. He argues that the violation occurred because David Ries was the President of MPC/MGC at the same time he was Omega's President. The alleged violation occurred because while Mr. Ries was President of MPC, MGC and Omega, he was negotiating a transportation contract with MPC/MGC on Omega's behalf.

Q. What is your response to that allegation?

A. There are two points I would make in response to Mr. Schallenberg's allegations. First, Staff was aware of the fact that MPC/MGC were sharing employees and office space with affiliates and urged FERC to grant a waiver allowing this sharing of employees and space to continue. Second, the contract negotiated between Omega and MPC/MGC requires Omega to pay the highest rates of any shipper on both systems.

Q. What support do you have for your contention that Staff knew that MPC/MGC were sharing employees and office space with affiliates?

A. As Mr. Ries details in his Rebuttal Testimony, he had discussions with MPSC Staff in 2002 where relationships between personnel of MPC/MGC and Omega were explained. Mr. Ries' status as President of MPC/MGC, MIG and Omega was explained to MPSC Staff in 2002.

Q. Are there other reasons why you would conclude that the MPSC Staff was aware of the affiliate relationships at issue?

A. Yes. The tariff provision, paragraph 12.b, cited by Mr. Schallenberg clearly states that "Transporter occupies office space on the same floor as its affiliates."

Additionally, all interstate pipelines were required to file in compliance with FERC's Order No. 2004 referenced above. MPC/MGC affiliate Missouri Interstate Gas, LLC ("MIG") made such a filing in FERC Docket No. TS04-259-000. In this filing, MIG sought waiver of the FERC Regulation found in section 358.4(a) concerning separation of function. This regulation requires, except in emergency circumstances, that transmission function employees of the pipeline must function independently of the pipeline's marketing or energy affiliates. MIG's filing in FERC Docket No. TS04-259-000 is attached as <u>Appendix B</u> to this testimony. As this appendix presents, MIG explained the relationships with Omega and MPC/MGC. Further, MIG requested a waiver of regulation concerning separation of function due to its small size and the inherent cost efficiencies that would be realized by shared employees.

On April 12, 2004, the Missouri Public Service Commission ("MPSC") intervened in that proceeding. This pleading is attached as <u>Appendix C</u> to this Rebuttal Testimony. On page 2 of the attached pleading, MPSC acknowledges that MPC, MGC and Omega are affiliates and that the same management and administrative personnel are shared by the affiliates. On page 10 of its pleading, the MPSC supported MIG's request for waiver of the separation of function regulation stating that it would be cost inefficient or even prohibitive to require the pipeline to employ a staff entirely separate from its affiliate. Specifically, the April 12 pleading stated "[t]he MoPSC urges the Commission to grant MIG a waiver from complying with 18 CFR 358.4(a)."

Q. Why is this statement by the MPSC in the MIG proceeding important in current proceeding involving MPC/MGC?

A. It is important because Mr. Schallenberg's testimony is silent on the fact that MPSC Staff was aware of the affiliate relationship between MPC/MGC and Omega and the fact that they were sharing management personnel.

Q. What was FERC's response to MIG's request for waiver of the separation of function regulation?

A. On July 7, 2004, FERC issued an order on requests for waivers from the Standards of Conduct. That order is attached as <u>Appendix D</u> to this testimony. In that order, FERC waived MIG's obligation to comply with FERC's independent functioning requirements and waived the information disclosure prohibitions with respect to MPC/MGC. MPSC sought rehearing of the July 7 order on several areas, but not with regard to the separation of functions waiver. I have attached the MPSC's August 3, 2004 Request for Rehearing in MIG's Docket No. TS04-259-000 as <u>Appendix E</u> to this testimony.

Q. What is your conclusion on Staff allegations concerning shared employees and the negotiation of Omega contracts with MPC/MGC?

A. My review shows that the MPC/MGC tariffs incorporated a provision acknowledging that there were shared personnel between the affiliates – MPC/MGC and Omega. Further, Mr. Ries is in a management position, not an operational personnel position, so his position as President of the three affiliates would not create a violation of the tariff. Moreover, the MPSC knew and supported the sharing of personnel between the affiliates in filings before FERC.

Q. Was it the understanding of MPC/MGC that the MPSC Staff knew of the affiliate relationships existing between MPC/MGC, MIG and Omega?

A. Yes. MPC/MGC and MIG operated with the express understanding that the MPSC knew of the limited staff available and that such employees were shared among the three utilities.

Q. Please discuss the contracts at issue between Omega and MPC and MGC.

A. My analysis shows that the contracts negotiated provide for Omega to pay the highest rates on both the MPC system and the MGC system. I would not view the resulting Omega contracts as giving them an advantage over any other shippers. My analysis of the data indicates that Mr. Ries gave no preferential treatment. <u>Appendix F</u> to my Rebuttal Testimony presents the transportation agreement that was in place with between Omega and MGC when Gateway purchased MPC/MGC. This agreement provided for a reservation rate that was lower than the rate negotiated by Mr. Ries. This does not indicate to me that MPC/MGC were harmed through the 2005 agreement with Omega (see <u>Appendix F-1</u>) or that there was preferential treatment provided any affiliate.

Q. What are your conclusions on this count?

A. Based on the foregoing facts, it is my opinion that: (1) MPC/MGC did not violate their tariffs with regard to shared personnel, and (2) the contract negotiated between Omega and MPC/MGC resulted in Omega paying the highest rate for transportation service on both systems, thus there was no preferential treatment for Omega and no other shippers were disadvantaged due to those contracts.

<u>Count Two – Transportation Agreements</u>

Q. What are the details of the Commission Staff's allegations regarding transportation agreements?

A. In the Complaint, Staff notes that the MGC/MPC tariffs require a written Transportation Agreement for each shipper (Sheet 4, Paragraph 1.c). Staff asserts that MPC/MGC have provided transportation for Omega without an executed Transportation Agreement. Staff believes that the failure to execute Transportation Agreement hides actual transactions and makes detection of irregularities difficult and less likely.

Q. What is your experience with transportation contracts?

A. I have had considerable experience in reviewing transportation contracts while I was employed at FERC. In most rate cases I was involved with while at FERC, there was a need to review the rate and contract terms of transportation agreements in setting rates and establishing or revising tariff provisions. In every position I had during my 23 years at FERC, reviewing transportation agreements was necessary.

Q. Based on your regulatory experience, what is your response to these allegations?

A. Based on my review of transportation agreements, agency agreements, invoices and other relevant data, MGC/MPC have had valid and binding transportation agreements with all shippers. Most of Staff's disagreement revolves around the operation of agency agreements that a number of MGC/MPC shippers utilize.

Q. Please explain how an agency agreement operates on natural gas pipeline systems.

A. An end-user of gas would authorize an agent, who typically is a marketing company, to assume some of the administrative functions and obligations that the end-user may have in order to receive gas supply. Examples of such obligations are nominations and scheduling receipts and deliveries on the pipelines and receiving billings. Small end-users and small local distribution companies ("LDCs") may structure the agreement so that the agent is also responsible for obtaining necessary gas supplies.

Q. What was your first experience with agency agreements?

A. My first experience was during the implementation of FERC's Order No. 636 beginning in 1992. Prior to 1992, most interstate pipelines provided a bundled service - both a gas sales function and a transportation function for their customers. Order No. 636 required interstate pipelines to functionally unbundle the gas sales and transportation functions. Subject to a short transition period, interstate pipelines were not allowed to continue to provide a gas sales service to customers. As pertinent to this case, all users of the interstate pipeline system were required to find their own supplier of natural gas, and to begin to take on certain scheduling and nomination functions with the pipeline. These were services previously provided by interstate pipelines. One consequence of entities being responsible for scheduling and nomination functions was that the pipelines were allowed to impose penalties when shippers did not keep their receipts into the system in balance with their deliveries off the pipeline system.

Many larger cities and end-users were able to adapt to the changes, sometimes with the assistance of a marketer. However, smaller cities and end-users did not have the ability to operate in an unbundled environment to secure their former gas sales function and the transportation functions necessary to receive reliable service. Due to the temperature sensitive nature of some small LDCs and end-users, these parties began incurring significant imbalance charges on interstate pipelines. An alternative for these entities was to enter into an agency agreement with an entity that would allow the agent to be responsible for certain functions required by the pipeline. These agreements could also be structured such that the agent was responsible for the natural gas supply requirements of the other party to the agreement. Several pipelines filed pro forma Agency Agreements during their Order No. 636 restructuring proceedings beginning in 1992. This was my first experience with agency agreements.

Q. Please detail the functions done under the agency agreement.

A. Some of the functions that can be done under approved interstate agency agreements include: nominations, confirmations, amending receipt and delivery points, receiving billing, making payments to the pipeline and viewing reports.

Q. Does the fact that a shipper on MGC/MPC has an agency agreement in place with a third-party change their existing transportation agreement?

A. No. Where there was an existing transportation agreement in place, such as with the City of Cuba, the agency agreement had a specific provision – "Section 16. Independent Contracts." This provision not only acknowledges Omega's common ownership with intrastate pipelines and that there has been no tying of the agency agreement to any transportation agreement, but the agency agreements provide for Omega to be responsible for scheduling and nominations of volumes on MPC/MGC on behalf of Cuba. Cuba has firm transportation agreements with both MPC (Contract No. MP-1025-TAF) and MGC (Contract No. MG-1009-TAF), both of which were entered into on July 1, 1999. These agreements are attached to my testimony as <u>Appendices G and H</u>. The responsibilities under those firm transportation agreements ultimately lie with the City of Cuba. The city has just delegated certain of those responsibilities to an agent – Omega.

Q. Is there other evidence of the independent nature of the MPC/MGC transportation agreement with Cuba and the Sales and Agency Agreement between Cuba and Omega?

A. Yes. Witness Clark Smith details, in his Rebuttal Testimony, reasons why the two are independent of each other. Mr. Smith explains that the transportation agreements were entered into years before the sales agreement between Cuba and Omega. He also notes that the obligations of Cuba under the transportation agreement are between Cuba and MPC/MGC and the obligations of Cuba under the sales agreement is an obligation only between Cuba and Omega. Mr. Smith also correctly points out that the sales agreement offered no advantage to Omega solely by virtue of the affiliate relationship between Omega and MPC/MGC. In summary, Mr. Smith clearly established that the two agreements are independent of each other.

Q. Are there other functions provided by a marketer or agent, which MPC/MGC do not provide?

A. Yes. For example, the agreements with the City of Cuba, Willard Asphalt Paving Company ("Willard"), Georgia Pacific Gypsum Plant ("G-P"), and Emhart Glass Manufacturing, Inc. ("Emhart") also require Omega to provide a gas sales function. These agreements are attached to my testimony as Appendices I, J, K and L. MPC/MGC do not provide a natural gas sales service. Consequently, entities enter into such agreements in order to receive the bundled sales and transportation services that they had before pipelines unbundled these services.

Q. What are the specific allegations set forth by Staff on this count?

A. Staff witness Schallenberg states on page 19 of his direct testimony that the violation occurred from July 1, 2003 to January 31, 2005 when MGC allegedly provided transportation service to Omega, without a transportation service agreement. He argues that MPC/MGC delivered Omega's gas to Cuba City Gate for G-P beginning on September 1, 2003 without an executed contract. Further, he states that MPC/MGC delivered Omega's gas to the Willard Interconnection on behalf of Omega's obligation to the Willard beginning around June 1, 2004 through January 31, 2005 without an executed transportation agreement.

Q. Discuss MPC/MGC's deliveries to the Cuba City Gate for G-P.

A. As discussed in the testimony of David Ries, the volumes transported for both the City of Cuba and G-P were pursuant to Cuba's effective firm transportation contracts with MPC (Contract No. MP-1025-TAF), MGC (Contract No. MG-1009-TAF) and the agency agreement between Omega and the City of Cuba dated May 17, 2003.

Q. Was there any benefit to the City of Cuba by having G-P's volumes transported under its transportation agreement?

A. Yes. The City of Cuba benefited from retaining G-P on its distribution system. In a June 17, 2003 transportation agreement between Cuba and Omega, Cuba provides Omega with the right to transport G-P's gas through the Cuba distribution system and references a rate of **_____________** for the use of the Cuba distribution system.

Q. Do you agree with Staff's contention that MPC/MGC permitted transport of Omega's gas to Cuba City Gate for G-P beginning on September 1, 2003 without an executed contract.

A. No. Cuba clearly has had executed transportation agreements in place since July 1, 1999 for transportation service on MPC/MGC. Omega entered into agreement with the City of Cuba on May 17, 2003, which provided for Omega to make nominations and scheduling on MPC/MGC. Cuba acknowledged the use of its capacity for G-P in the June 13, 2003 transportation agreement between Cuba and Omega, Cuba benefited from such use of its capacity on MPC/MGC. All of these actions are before the September 1, 2003 date when Staff alleged the transportation without an agreement for G-P began.

Q. Is the sales agreement between Omega and G-P unusual?

A. No. As Witness Clark Smith explains in his Rebuttal Testimony, there is nothing unusual or discriminatory in the sales agreement between Omega and G-P. Mr. Smith explains that these sales agreements are normal across the natural gas industry for many small industrial customers, who desire the ability to buy their gas supply in the form of a "bundled" service.

Q. Please discuss the Staff allegation that MPC/MGC delivered Omega's gas to the Willard Interconnection on behalf of Omega's obligation to Willard beginning

around June 1, 2004 through January 31, 2005 without an executed transportation agreement.

A. Omega and Willard executed an agency agreement on April 4, 2004, which required Omega to deliver natural gas to meet the Willard Plant's needs. Omega was providing nominations, scheduling and billing functions on MPC/MGC. The actual daily deliveries for Willard under the Cuba contracts was broken out on the MPC/MGC invoices to Cuba. MPC/MGC are providing its services to Willard under a valid and binding firm transportation service agreement with the City of Cuba through the city's agent – Omega.

Q. Do you agree with Mr. Schallenberg's opinion that a transportation agreement is required for the transactions discussed above?

A. For all the reasons stated above, I do not agree with Mr. Schallenberg. There are other marketers on the MPC/MGC systems that currently provide similar agency and sales services. Specifically, ONEOK Marketing currently provides agency and sales services to the city of St. James, St. Robert and Waynesville. ONEOK is providing the same services for these cities that Omega provides for Cuba. Furthermore, as is explained by Mr. Ries in his Rebuttal Testimony, Cuba had a similar agency agreement with Ameren Energy marketing for several years prior to entering into the sales agreement with Omega. A copy of the Ameren sales agreement with Cuba is attached to my testimony as Appendix M.

Q. What is your overall reaction to Staff's allegations concerning MPC/MGC allowing Omega to transport on their systems without a transportation agreement?

A. There was a valid firm transportation agreement supporting MPC/MGC's deliveries for use by both G-P and Willard. Further, there were valid agency agreements in place between Omega and Cuba, Omega and G-P, and Omega and Willard covering the periods stated in Staff's allegations. Omega was providing agreed upon nomination, scheduling and billing services on MPC/MGC pursuant to the agency agreements. My experience is that another transportation agreement would not be needed for G-P and Willard in this situation where they are making valid use of available firm capacity of Cuba's existing firm transportation agreement on MPC/MGC. Finally, Omega's sales agreements with Cuba and the industrials is consistent with an agreement in place previously with Ameren and, as Witness Clark Smith explains, normal in the natural gas industry.

Count Three – Rates and Discounts

Q. Please detail the relevant tariff provisions relied upon by Staff for their allegations concerning rates and discounts.

A. At page 21 of his Direct Testimony, Staff witness Schallenberg reproduces Section 3.2 of the MPC/MGC tariffs, these provisions set forth the range of rates that may be charged by the pipelines. He highlights language in this provision that provides that the lowest transportation rate charged to an affiliate shall be the maximum rate that can be charged to non-affiliates. Witness Schallenberg states that MPC/MGC would be in violation of their tariffs to charge a non-affiliate more than MPC/MGC is charging Omega.

Q. What are the allegations of Staff concerning transportation rates and discounts to those transportation rates?

A. Staff asserts that MPC/MGC charged non-affiliate customers higher rates than the rates charged to an affiliate, without approval, thereby overcharging non-affiliated shippers for transportation service (complaint at Paragraph 17).

Q. Do you concur with Staff's allegation?

A. No.

Q. Please summarize your disagreement with Staff on this count.

A. My analysis shows that Staff's position that MPC/MGC is charging affiliates lower rates than those charged to non-affiliates is inaccurate. Based on the methodology set forth in the MPC/MGC tariffs to compare rates, Omega is paying the highest rates on either system. MPC/MGC's rates to affiliates and non-affiliates are also consistent with generally accepted ratemaking methodologies.

Q. Would you please generally describe the ratemaking process used to set rates?

A. The first step involves the determination of a pipeline's overall cost of service or revenue requirement. The cost of service is the main consideration upon which a pipeline's overall rate structure is based. The second step is to categorize the costs from the revenue requirement as fixed costs or variable costs. The third step is to classify the fixed or variable costs to either the reservation (demand) or commodity components. The fourth step is to allocate the classified costs to the services offered by the pipeline. The final step is to design rates for each of the services based upon allocated costs and representative levels of service (or billing determinants).

Q. Please detail acceptable rate forms for shippers such as those served by MGC/MPC.

A. Rates for firm transportation service provided by pipeline companies typically take the reservation charge-commodity charge or two-part rate form. The reservation charge is derived based on shipper contract demand levels. The commodity charge is typically based on total annual throughput on the system. Thus, the minimum monthly charge in the reservation-commodity form of rate is the firm reservation charge multiplied by the contract demand of the shipper.

In some instances, a single volumetric rate is used by some pipelines for firm service to smaller shippers. A volumetric rate would be based on annual throughput determinants and would be charged to each shipper based upon their monthly usage. In certain instances, the one-part volumetric rate charged to small shippers is computed at an imputed load factor. The load factor will typically be based on the average small shipper use of the system compared to the amount of gas that shippers could transport based upon their contract demand levels. Under a one-part volumetric rate form, if a shipper did not ship on the pipeline during the month and there was no minimum bill provision in the agreement, their monthly transportation charge would be zero.

Many pipelines also provide interruptible transportation services. These services are typically charged a volumetric rate based on a 100% load factor equivalent of the firm transportation rates. Specifically, the 100% load factor interruptible rate is developed by adding the firm commodity charge to the monthly reservation rate converted to a daily equivalent rate.

Q. Please explain the form of rates charged by MPC and MGC.

A. MPC's firm customers all pay a two-part reservation and commodity rate. MPC's interruptible transportation service is a one-part volumetric rate.

MGC's provides firm service under both two-part rates and one-part firm rates imputed at a 25% load factor. In addition, MGC has a separate set for two-part rates for service to Fort Leonard Wood. MGC also offers interruptible transportation service on a one-part volumetric rate basis.

Q. Given that MPC and MGC each have firm shippers with different firm rates, how did you compare rates charged on these pipelines?

A. In order to compare shippers on both systems on an equivalent basis, I used the methodology required by both tariffs. Specifically, Paragraph 3.2(b)(4) of the firm transportation rate schedule of both the MPC (P.S.C. MO. No. 2, Sheet No. 6) and MGC tariff (P.S.C. MO. No. 2, Sheet No. 6) provides that:

> Rate comparisons for compliance with these provisions will be calculated assuming a 25% load factor.

I have utilized the 25% load factor specified in the tariffs for my rate comparison detailed below.

Q. Please provide greater detail on the allegations concerning rates charged by MPC and MGC to former affiliate, Omega.

A. As I explain later in my testimony, Staff's recommendations would place both pipelines in a veritable death rate spiral. My analysis goes over the allegations against each pipeline independently as the charges are not similar for both pipeline systems.

Q. What are the specific rate allegations regarding transportation service on MPC?

A. Staff witness Schallenberg, on page 22 of his Direct Testimony, asserts that MPC provides (1) discounted interruptible transportation to Omega and (2) discounted firm transportation to **__________** City Gate. He next asserts that the discounts disadvantaged shippers paying the maximum rates on MPC. These shippers are identified, on page 22 of his Direct Testimony, as the **________________________ ____ ______________________** at the **______________** delivery point and non-affiliated interruptible shippers.

Q. What are Staff's recommended rate changes for MPC?

A. Staff Witness Schallenberg presents his recommended rate changes in the form of rate adjustment charts, which start on page 24 and conclude with a chart on page 27. As the chart on page 27 shows, Mr. Schallenberg proposes that the MPC firm reservation rate ultimately be decreased from **___________________________**. This chart also shows a recommended dramatic reduction in MPC's rate for interruptible transportation service – **___________________________**.

Q. Do you agree with Mr. Schallenberg's analysis and conclusions with regard to MPC transactions?

A. No. On page 27 of his Direct Testimony, Mr. Schallenberg contends that Omega received discounted transportation service from MPC through Omega entering into contracts with the City of Cuba, Willard, G-P and Emhart to provide gas supply at rates that were independent of the rates MPC would charge for transportation service. He states that MPC would allow Omega to assume an existing transportation service agreement or host contract through an agency agreement.

Mr. Schallenberg is comparing rates for service under transportation service agreements between MPC and shippers with payment provisions from gas sales and agency agreements between Omega and The City of Cuba, G-P and Emhart. As Mr. Schallenberg notes on page 27 of his Direct Testimony Omega charges included charges for performing a gas supply function as well as charges for the transportation service provided by MPC and MGC. It is not appropriate to compare the rates and charges from the gas sales and agency agreements to those set forth in the transportation agreements of other shippers when the functions and services provided are not equivalent.

Q. Have you done a comparison, based on the 25% load factor required by the tariff, of rates charged by MPC to Omega and other shippers?

A. Yes. My analysis shows that the rate Omega and the City of Cuba are paying on MPC are not discounts compared to any other shipper. In fact, as this chart shows, both Omega and the City of Cuba are paying the highest MPC rates of any other shipper.

MPC Shipper	25% Load Factor Rate
Omega	**__________**
Cuba	**__________**
Waynesville	**_________**
St. Robert	**_________**
St. James	**_________**

Laclede	**________**
AmerenUE	**________**
Fidelity	**________**
Royal Canin	**________**
Phelps	**________**
Busy Bee	**________**
U.M. – Rolla	**________**

I have also included two graphs as Appendices N and O to my Rebuttal Testimony. These appendices compare the rates charged on MPC for the period February 2005 through March 2006. Omega and Cuba have both been paying the **________** tariff rates for services on MPC.

Q. Please summarize your reaction to Staff's allegations with regard to the rates MPC charged.

A. I disagree with Mr. Schallenberg's attempt to compare rate terms from the Agency agreements with rates charged under transportation service agreements. I also disagree with his attempt to project the rates charged to the City of Cuba as being ones charged to an affiliate. The City of Cuba has never been an affiliate of MPC/MGC. Nonetheless, my rate analysis showed that Omega and Cuba were paying the **________** rates for service on MPC. Thus, what these shippers were paying was on a par or more than that paid by all other shippers. Consequently, I disagree with his contention that MPC provided its one-time affiliate, Omega with a discount that should be offered to other non-affiliated shippers.

Q. What are Staff's recommended rate changes for MGC?

A. Witness Schallenberg also recommends drastic reductions to both components of the firm rates – the reservation and commodity charges. Per the chart on page 27, Mr. Schallenberg recommends that MGC's just and reasonable firm reservation rate be eliminated, reducing the tariff reservation rate of **_______________**. Mr. Schallenberg also recommends slashing the MGC firm commodity charge from **________________________**. The one-part interruptible rate would go from **___________________** under the rates presented on the chart on page 27.

Q. What are the allegations concerning MGC transactions?

A. Witness Schallenberg states MGC provided it former affiliate, Omega, with a form of discount for FT or IT to deliver to (1) the Cuba City Gate; (2) the Willard Interconnection; (3) the Owensville City Gate; and (4) the Fort Leonard Wood City Gate. Next, witness Schallenberg asserts that the discounts disadvantaged shippers paying the maximum rates on MGC. He states that there are non-affiliates paying maximum rates on MGC including the **____________________________________ ____________________________________ **.

Q. Do you agree with Mr. Schallenberg's analysis and conclusions with regard to MGC transactions?

A. No. Once again, Omega is the shipper paying the highest rate on the MGC system. Further, as was explained earlier, Mr. Schallenberg is comparing rates for service under transportation service agreements between MGC and shippers with payment provisions from gas sales and agency agreements between Omega and The City of Cuba, G-P and Emhart. The charges from the transportation agreement is not comparable to the charges from the gas sales and agency agreements because the agency agreement will provide for charges for gas supply as well as charges for the transportation service provided by MPC and MGC and perhaps other pipelines. As Mr. Clark Smith makes clear in his Rebuttal Testimony, the obligations, rights and duties between Omega and Cuba under the Sales Agreement is entirely independent of the obligations of Cuba under its MGC Transportation Agreement. Consequently, it is not appropriate to compare the rates and charges from the gas sales and agency agreements to those set forth in the transportation agreements of other shippers when the functions and services provided are not equivalent.

Q. Have you done a comparison, based on the 25% load factor required by the tariff, of rates charged by MGC to Omega and other shippers?

A. Yes. My analysis shows that the rate Omega is paying on MGC is the highest on the MGC system. The specific 25% load factors rates are:

MGC Shipper	25% Load Factor Rate
Omega	**________**
Royal Canin	**________**
Phelps	**________**
Busy Bee	**________**
AmerenUE	**________**
Waynesville	**________**
St. Robert	**________**
St. James	**________**
Cuba	**________**
U.M. – Rolla	**________**

The chart above presents data for the period February 2005 until March 2006. This timeframe was chosen because Omega's firm natural gas transportation agreements under Contracts MG-1103-TAF and MOP-1103-TAF began in February 2005. I have also included two graphs as Appendices P and Q to my Rebuttal Testimony. These appendices compare the rates charged on MGC for the period February 2005 through March 2006. As these charts and tables show, Omega has been paying the highest rate on the MGC system during that period.

Q. What are your general concerns about the levels of the rate reductions sought by Witness Schallenberg?

A. The rate levels reflected on the chart on page 27 of Mr. Schallenberg's would not provide MPC and MGC a reasonable opportunity to recover prudently incurred costs and could be detrimental to shippers and end-users in the long run.

Q. Please explain how the rates set forth in Mr. Schallenberg's testimony at page 27 would not provide the pipelines with a reasonable opportunity to recover prudently incurred costs.

A. As discussed above, a pipeline's rates are based upon an established cost of service or revenue requirement. In the ratesetting process, these costs are classified as either fixed or variable costs. Fixed costs are those that do not vary with the volumes of gas transported and generally consist of costs related to (1) operation and maintenance costs, and (2) investment in facilities, including depreciation, state and federal taxes, and a rate of return component. Fixed costs are typically classified to the reservation component of rates and recovered by the pipelines in its firm reservation charge.

Variable costs are those that vary proportionally to the volume of gas transported. Variable costs are made up largely of costs related to compressor station use and purchased gas costs, if any. Variable costs are typically classified to the commodity component of rates and recovered in the firm commodity charge.

By making recommendations that MPC's and MGC's firm reservation rates be adjusted to **________**, the pipelines would have no opportunity to recover prudently incurred fixed costs related to operation and maintenance of the system. The pipeline's ability to carry on its existing operations would be severely limited.

Count Five – Willard Facilities

Q. Please provide some details on this allegation concerning the Willard facilities.

A. Mr. Schallenberg, on page 34 of his Direct Testimony, states that MGC paid Omega's expenditures related to the cost of constructing, establishing and modifying the MGC facilities required for the delivery of gas to an Omega customer without billing Omega for reimbursement of these expenditures, as required by Section 6.e of the General Terms and Conditions of the MGC Tariff.

Q. Why did MGC decide to construct the facilities necessary for the Willard interconnection?

A. My understanding is that MGC made the decision to construct the minor amount of pipeline and the meter station to create an interconnection with the Willard Asphalt plant based on business factors.

Without the interconnection, MGC would lose the opportunity to serve the plant. In addition, the plant primary usage was during off-peak periods on the MGC system. This allowed MGC to add throughput without impacting existing customers needs. There was also the potential to add other customers located in close proximity to the pipeline that was constructed.

Q. Please explain the circumstances behind the construction of the Willard facilities.

A. Mr. Ries, in his Rebuttal Testimony, fully explains the business reasons for MGC electing to build and pay for the lateral and meter station to Willard. As Mr. Ries states, there are a number of potential gas users in the vicinity of the lateral. Mr. Ries also explains that the revenues received under the Willard are expected to increase based on equipment changes at the Willard plant.

Q. Would Omega have had a sufficient incentive to pay or construct the facilities themselves?

A. No. Omega would want to be guaranteed of a quick payback period for the expenditure involved. Willard could opt to choose another marketer at any time.

Q. Have any other shippers had to incur any costs related to this investment?

A. No. MGC has not filed a rate case since these facilities went into service. Consequently, none of the costs of these facilities would have been reflected in the determination of the currently effective rates.

Q. Is it reasonable for MGC to carry the costs of these facilities as regulated assets?

A. MGC actions appear prudent and necessary to meet existing and potential growth on its system. The Willard plant's off-peak usage enables MGC to increase utilization of the system when others are not putting great demands on the system. Other shippers ultimately will benefit from MGC retaining and expanding the usage of the MGC system. Based on these factors, I view MGC's actions in making the investment in the Willard facilities as prudent.

Count Six - Billing

Q. What allegation has been made concerning MPC/MGC's billing procedures?

A. The Staff complaint (at paragraph's 32 and 33) note that MGC and MPC's tariffs specify that they will apply all terms and conditions in a uniform and nondiscriminatory manner without regard to affiliation. Staff alleges, that in violation of its tariffs, MPC and MGC have not billed Omega in the same way it has billed other transportation customers. The complaint states that MPC and MGC have provided service but have not billed Omega by the tenth of the month following the service delivery, without charging Omega interest for not paying by the 20th of the month. Finally, the complaint maintains MPC and MGC have not provided such billing arrangements for other customers.

Q. What do the MPC/MGC tariffs provide for with regard to billing statements by the pipelines and payments by shippers?

A. Paragraph 6 – <u>Statements and Payments</u> of the General Terms and Conditions of both MPC/MGC's tariff sets forth the provisions regarding billing statements and payments.

On billing procedures, Paragraph 6.a states, in part that "*Transporter shall send to shipper, on or before the 10th of each month, a billing of charges rendered in the preceding month.*"

As to payments by shippers, Paragraph 6.b provides that "*Shipper shall pay Transporter within 10 days from the date on which the bill is sent for all charges billed in accordance with the provisions of this Rate Schedule*."

Q. Did your review show that MPC and MGC billed their shippers by the 10 of the month in compliance with their tariff provisions?

A. I have created as Appendix R to my Rebuttal Testimony a table that lists the date of the month in which invoices were sent to all shippers for the period January 2005 to March 2006. This table clearly shows that Omega was billed at the same time as all other shippers on MPC/MGC. Furthermore, this table shows that in every month during this period, the invoices were sent out by the 3rd of the month. The billing dates for MPC/MGC were clearly before the 10th of the month required by Paragraph 6.a.

Q. How has Omega compared to other shippers in making payments on their monthly billings?

A. Appendix S to my Rebuttal Testimony is a table which shows the average days for each MPC and MGC shipper to make their payments after the invoices have been sent. The period reviewed is from January 2005 to March 2006. As the attachment shows, Omega, as Cuba's agent, has averaged 7.8 days to pay MPC / MGC invoices and Omega has paid it's invoices under it's transportation contract with MPC and MGC on average within 8.3 days. The remaining shippers on average take from 11.3 days to 27.5 days to make their payments. Consequently, Omega is the only entity who, on average, makes payment within 10 days from the date of the billing, as is required pursuant to Paragraph 6.b of the General Terms and Conditions.

Q. In your review of invoices and billing material, did you see evidence of preferential treatment to Omega in the billing procedures of MPC and MGC?

A. No. MPC and MGC both billed Omega at the same time that other shippers were billed. Omega also was the only shipper during the period I reviewed (January 2005 to March 2006) that met the tariff requirement that shippers pay their billings within 10 days of the date the bill was sent.

Q. Do you agree with the allegations made in the Staff complaint concerning billing practices of MPC and MGC?

A. Not at all. The results of my review of invoicing and payment data showed that both MGC and MPC clearly abided by the terms of their tariffs with regard to billing and payment.

Conclusion

Q. Please summarize your conclusions on the allegations to which you presented testimony.

A. Staff has not supported or justified the allegations against MPC/MGC on any of the counts, which I addressed in my testimony. The fatal flaw in Staff's case is their position that MPC/MGC required transportation agreements for services provided under valid, binding and independent sales and agency agreements. This position has been shown incorrect by all MPC/MGC witnesses. Consequently, all the counts and allegations related to this position should be dismissed.

Q. Does that conclude your testimony?

A. Yes it does.

BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

Staff of the Missouri Public Service Commission	)	
Complainant,	)	
	)	Case No. GC-2006-0491
v.	)	
	)	
Missouri Pipeline Company, LLC and Missouri Gas Company, LLC	)	
Respondents.	)	

AFFIDAVIT OF CHRISTOPHER A. JOHN

STATE OF MARYLAND	)	
	)	ss.
COUNTY OF ________________	)	

Christopher A. John, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of ___ pages of testimony to be presented in the above case; that the answers in the foregoing Rebuttal 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.

____
Christopher A. John

Subscribed and sworn to before me this _______ day of October, 2006.

____
Notary Public

My Commission expires: