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*Witness:* Christopher A. John  
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**MISSOURI GAS COMPANY, LLC  
MISSOURI PIPELINE COMPANY, LLC**

**SURREBUTTAL TESTIMONY**

**OF**

**CHRISTOPHER A. JOHN**

**CASE NO. GC-2006-0491**

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

*November 17, 2006*

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8

9 **Introduction**

10 **Q. Please state your name and business address.**

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

13 **Q. Would you please state your occupation?**

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

16 **Q. On whose behalf are you presenting Surrebuttal Testimony in this proceeding?**

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

19 **Q. Are you the same Christopher A. John who submitted Rebuttal Testimony in**  
20 **this proceeding?**

21 A. Yes, I am.  
22  
23

1 **Executive Summary**

2 **Q. Please provide an executive summary of your Surrebuttal Testimony in this**  
3 **proceeding.**

4 A. My Surrebuttal Testimony will address issues raised by James J. Massmann on  
5 behalf of Union Electric Company d/b/a AmerenUE (“AmerenUE”).

6 **Q. What issues did Mr. Massmann raise in his Rebuttal Testimony?**

7 A. Mr. Massmann raised issues regarding AmerenUE’s Purchase Gas Adjustment  
8 (“PGA”) mechanism. Mr. Massmann alleges that MGC rates are the reason it has  
9 high PGA costs associated with its deliveries off the MGC system. Mr. Massmann  
10 also asserts that refunds are due based on the conclusion that MPC and MGC are  
11 giving discounted rates to affiliates that are lower than the rates paid by non-affiliates  
12 in violation of the MPC/MGC tariffs.

13 Mr. Massmann also raised issues concerning affiliate discounts and affiliate  
14 transportation agreements.

15 **Q. Please summarize your findings.**

16 A. Mr. Massmann claims that refunds are due to non-affiliated shippers, including  
17 AmerenUE, because MPC and MGC provided a former affiliate, Omega Pipeline  
18 Company (“Omega”), with a discounted transportation rate that is lower than the rate  
19 currently paid by non-affiliates. Mr. Massmann's claim is unsupported and should be  
20 rejected. As I have presented in my Rebuttal Testimony and explain further in this  
21 Surrebuttal Testimony, Omega was and is paying transportation rates that are higher  
22 than or equal to all shippers on MPC and MGC. Consequently, no refunds are due to  
23 any non-affiliated shipper. Moreover, no penalties are warranted since the discount

1 provision of the tariff has not been violated. Mr. Massmann's concerns about its  
2 PGA costs are unfounded. I present evidence showing that the reason for the high  
3 PGA is due, in part, to a condition AmerenUE agreed to as part of its purchase of  
4 facilities attached to the MGC system and, in part, due to AmerenUE's low load  
5 factor utilization of its capacity entitlements on MGC.

6

7 **Massmann Rebuttal Testimony**

8 **The AmerenUE Purchased Gas Adjustment Is a Non-Issue In GC-2006-0491**

9 **Q. Please detail the concerns raised by Mr. Massmann about the MGC's purchase**  
10 **gas adjustment ("PGA") mechanism.**

11 A. Mr. Massmann states that his primary concern about the service it receives from  
12 MGC is the high cost of delivered gas it creates compared to other AmerenUE  
13 systems and its impact on the PGA rate surcharge for AmerenUE's Rolla System.

14 **Q. Was this allegation raised in the Staff Complaint?**

15 A. No. As Mr. Ries points out in his Surrebuttal Testimony, this issue is outside of the  
16 scope of this case entirely and is not proper rebuttal testimony. However, I would  
17 like the opportunity to address the concerns raised by Mr. Massmann concerning the  
18 PGA.

19 **Q. Mr. Massmann's concern is the high cost of its PGA used to serve the Rolla**  
20 **System when compared to other AmerenUE systems. What factors explain why**  
21 **this PGA may be higher than other AmerenUE PGA's?**

22 A. I would point to two factors. First, when AmerenUE acquired the facilities in and  
23 around the cities of Rolla, Salem and Owensville, Missouri ("Rolla System") from

1           Aquila Networks – L&P (“Aquila”) in 2004, the Commission accepted a stipulation  
2           and agreement which imposed a condition requiring Rolla System customers to pay  
3           AmerenUE’s Panhandle Eastern Pipe Line Company (“PEPL”) PGA costs plus an  
4           incremental MGC PGA factor. As a result of the Rolla System customers paying the  
5           MGC PGA costs in addition to the PEPL PGA costs, their PGA costs will always  
6           exceed the other AmerenUE customers paying only the PEPL PGA costs. Second,  
7           AmerenUE’s load factors under two of its three transportation contracts with MGC  
8           are at very low levels. The low system utilization rates reflected in the load factors  
9           for the contracts to serve Owensville and Salem result in the MGC transportation  
10          costs being spread over smaller volumes, which would act to increase the per unit  
11          MGC surcharge flowed through the PEPL PGA applicable to the Rolla System  
12          customers. In his Surrebuttal Testimony, Mr. Ries will address the load factor  
13          utilization issue in greater detail.

14   **Q.   Please explain in greater detail the MGC incremental PGA provision of the**  
15   **settlement.**

16   A.   On December 3, 2003, AmerenUE and Aquila filed a joint application under Case  
17          No. GM-2004-0244 seeking authority for Aquila to sell the Rolla System assets to  
18          AmerenUE. (See Appendix HH.) On March 30, 2004, the parties to that proceeding  
19          filed a Unanimous Stipulation and Agreement resolving all issues raised. The  
20          Unanimous Stipulation and Agreement is found in Appendix II to this testimony. On  
21          April 30, 2004 the Commission issued an Order Approving Stipulation and  
22          Agreement. (See Appendix JJ). One of the provisions agreed to by AmerenUE in the  
23          settlement was for the Rolla System customers to pay the AmerenUE PEPL PGA plus

1 an incremental MGC PGA factor. As the settlement explains, this MGC PGA factor  
2 is only applied to the Rolla System customers, who also must pay the AmerenUE  
3 PEPL PGA factor.

4 **Q. How is the MGC PGA factor developed?**

5 A. This factor is designed to recover 100% of MGC's reservation and commodity costs.  
6 These transportation-related expenses will be flowed through the PGA mechanism  
7 exclusively to the Rolla System customers.

8 **Q. Please explain the reason for assessing the MGC PGA factor to Rolla System**  
9 **customers.**

10 A. The settlement agreement, which was agreed to by Staff and AmerenUE, states that  
11 this requirement is designed to protect AmerenUE's other PEPL customers, who  
12 receive no benefit from the MGC system.

13 **Q. What is the impact of this incremental cost on the total PGA costs incurred by**  
14 **Rolla System customers?**

15 A. The PGA costs for the Rolla System customers will always be higher than other  
16 customers under AmerenUE's PEPL PGA.

17 **Q. Please summarize your testimony on the PGA issue raised by Mr. Massmann.**

18 A. The high PGA costs for the Rolla System customers is influenced by the incremental  
19 PGA charge agreed to by AmerenUE in the settlement discussed above as well as  
20 AmerenUE's low load factor utilization of its entitlements under two of its contracts.

21 **Q. Did MPC/MGC have any control or influence over these two factors that**  
22 **contribute to the high PGA costs incurred by AmerenUE's Rolla System**  
23 **customers?**

1 A. No. Any blame for high PGA costs due to these factors should not be placed on  
2 MPC/MGC as they had no control over these factors.

3

4 **Discounts**

5 **Q. What is Mr. Massmann's position with regard to discounts?**

6 A. Mr. Massmann states that if the Commission determines that MPC and/or MGC have  
7 overcharged AmerenUE in violation of the MPC/MGC filed tariffs, then AmerenUE  
8 seeks a refund from MPC and MGC in an amount equal to all such over-charges.  
9 (Massmann Rebuttal at 7).

10 **Q. Has Mr. Massmann independently formed his conclusions on the alleged**  
11 **overcharges?**

12 A. No.

13 **Q. Has Mr. Massmann offered any independent analysis or evidence to support his**  
14 **position?**

15 A. No. Mr. Massmann did not present any independent analysis of the discount issue  
16 and admittedly relies on the allegations of Staff that MPC/MGC may have given  
17 Omega a discounted transportation rate that is lower than the rate currently paid by  
18 non-affiliates. (Massmann Rebuttal at 5).

19 **Q. What is the basis for Mr. Massmann's conclusion concerning affiliate discounts?**

20 A. Mr. Massmann's conclusion is based entirely on the Direct Testimony of Missouri  
21 Public Service Commission Staff. (Massmann Rebuttal at 5).

22 **Q. Did Mr. Massmann's Rebuttal Testimony look at the underpinnings of the**  
23 **testimony presented by Staff?**



1 A. No. There is no independent review of rates or other rate analysis by Mr. Massmann  
2 in support of Staff's analysis and conclusions.

3 **Q. Are Mr. Massmann's conclusions totally dependent on the assumptions and**  
4 **conclusions of Staff?**

5 A. Yes. The sole basis for the alleged discounts referenced in Mr. Massmann's  
6 testimony is the Staff allegation that MPC/MGC *may have provided* discounts to  
7 Omega that were not offered to affiliates. (Massmann Rebuttal at 5).

8 **Q. What is your response to Mr. Massmann's claim of overcharges?**

9 A. As was presented in my Rebuttal Testimony and discussed below, Staff's conclusions  
10 on affiliate rates and discounts are incorrect. Consequently, Mr. Massmann's  
11 assumptions regarding affiliate discounts are flawed for the same reasons.

12 **Q. Please explain in more detail why Mr. Massmann's reliance on the Staff Direct**  
13 **Testimony is inappropriate.**

14 A. There are flaws and incorrect assumptions used by Staff in making their conclusions  
15 with regard to discounts.

16 **Q. What are the flaws and incorrect assumptions used by Staff?**

17 A. Staff witness Robert Schallenberg presented adjustments to rates based on assumed  
18 discounts on pages 24 through 27 of his Direct Testimony. Mr. Schallenberg has  
19 made a number of errors in developing his rate tables:

20 (1) Mr. Schallenberg either ignores or misunderstands the difference in contractual  
21 rights provided by agency agreements and transportation agreements. Mr.  
22 Schallenberg has created a concept of "host" transportation agreement, which has  
23 resulted in misleading comparisons regarding agency agreements of rates charged by

1 MPC/MGC to shippers like the City of Cuba and charges under a sales and agency  
2 agreement. When stripped of this newly created “host” transportation agreement  
3 concept put forth by Mr. Schallenberg, the only conclusion is that MPC/MGC’s  
4 affiliate paid the highest transportation rates of any shipper.

5 (2) Mr. Schallenberg’s tables are based upon incorrect conclusions concerning the  
6 appropriateness of agency agreements entered into by Omega, a former affiliate of  
7 MPC/MGC.

8 (3) Mr. Schallenberg’s methodology inappropriately compares individual rate  
9 components, such as the reservation charge and the commodity charge, in developing  
10 his tables. Mr. Schallenberg should have used the rate comparison methodology  
11 required by the MPC/MGC tariffs, because this methodology appropriately compares  
12 the total transportation charges (reservation and commodity) on an equivalent basis.

13 (4) Mr. Schallenberg’s conclusions that there have been discounts provided to  
14 affiliates is incorrect. Based on the comparison methodology required by the  
15 MPC/MGC tariffs, it is clear that Omega is paying rates higher than or equal to all  
16 shippers on MPC and is paying the highest rate of all shippers on MGC.

17 **Q. Will you explain each of these criticisms in greater detail?**

18 A. Yes. These criticisms of Mr. Schallenberg are necessary as Mr. Massmann relies  
19 entirely on these assumptions, which are faulty.

20 **Q. Please explain in greater detail the first criticism that Mr. Schallenberg’s tables**  
21 **are based upon a fundamental misunderstanding of the nature of agency**  
22 **agreements entered into by Omega.**

1 A. Several of the rate adjustments made by Mr. Schallenberg are based on a fundamental  
2 misunderstanding of agency agreements and a lack of recognition of the differences  
3 between: (1) rates charged under a MGC/MPC transportation agreement; and (2) the  
4 bundled charges contained in agency agreements entered into by Omega with several  
5 customers.

6 **Q. What evidence is there that Mr. Schallenberg misunderstands the differences**  
7 **between agency agreements and transportation agreements?**

8 A. The first improper rate adjustment made by Mr. Schallenberg on page 24 of his Direct  
9 Testimony is based on his assumption that “beginning July 1, 2003, MGC provided  
10 Omega firm transportation at a rate lower than the maximum tariff rates.”

11 **Q. What is the fundamental misunderstanding of Mr. Schallenberg with regard to**  
12 **the July 1, 2003 agreement between Omega and Cuba?**

13 A. What actually occurred on July 1, 2003 was that Omega entered into a *non-*  
14 *jurisdictional and non-regulated* Natural Gas Sales and Agency Agreement with the  
15 City of Cuba to provide for a bundled transportation and sales service. The actual  
16 jurisdictional transportation contract between MPC/MGC and Cuba were in effect  
17 since 1999.

18 These are two distinct and separate contracts between different parties. The  
19 Natural Gas Sales and Agency Agreement is between Cuba and Omega, while the  
20 preexisting Transportation Agreement is between MPC/MGC and Cuba.

21 However, Mr. Schallenberg has incorrectly attributed affiliate status to this  
22 transaction between Omega and Cuba through his “host” transportation agreement  
23 concept. Using this concept, Mr. Schallenberg has concluded that Omega, the agent,

1 is now the shipper under the Cuba transportation contract. Further, he assumes that  
2 the Cuba transportation rates with MPC/MGC, as well as tariff provisions of the  
3 pipelines, are now applicable to Omega and that the Cuba transportation rate  
4 transforms into an affiliate rate, which should dictate rates paid by other shippers.  
5 There is no explanation or analysis presented by Mr. Schallenberg to justify his  
6 conclusion that the Cuba transportation rate should be assumed to be an affiliate  
7 transportation rate. (The City of Cuba is not an affiliate of MPC or MGC.)

8 **Q. Do you agree with Mr. Schallenberg's conclusion with regard to the impact of**  
9 **the July 1, 2003 Agency Agreement between Omega and Cuba?**

10 A. No. In my Rebuttal Testimony I set forth the reasons why agency agreements are  
11 appropriate from a regulatory perspective. I also explained the difference between a  
12 transportation agreement and an agency agreement. MPC/MGC Witness David Ries  
13 presented Rebuttal Testimony explaining that the Cuba transportation agreements  
14 with MPC/MGC do not limit with whom Cuba can conduct the business of managing  
15 its capacity and that Cuba still holds the capacity on MPC/MGC. Mr. Ries also notes  
16 that there are cities with a similar agency relationship with **\*\*\_\_\_\_\_\*\***. In  
17 addition, MPC/MGC witness Clark C. Smith explains how the agency agreement is  
18 independent from and not comparable to the transportation contract, and how the  
19 agency role assumed by marketers was normal, especially when small LDCs were  
20 involved. Moreover, the Natural Gas Sales and Agency Agreement between Cuba  
21 and Omega can be terminated by either party without altering the pre-existing  
22 transportation agreement between MPC/MGC and Cuba.

1 **Q. Why is Mr. Schallenberg's "host" transportation agreement concept**  
2 **inappropriate, as is Mr. Massmann's reliance on it?**

3 A. The transportation agreement and the agency agreements are not comparable because:  
4 (1) the transportation agreement is jurisdictional and subject to the provisions of the  
5 MGC tariff, while agency agreements are treated as non-jurisdictional, non-regulated  
6 agreements and not subject to the requirements of the MPC/MGC tariff; and (2) the  
7 transportation agreements charge rates only for the transportation services, whereas  
8 the agency agreements charge rates based on a bundled sales and transportation  
9 service.

10 **Q. Is Mr. Schallenberg advocating a policy change with regard to agency**  
11 **agreements?**

12 A. Yes. Mr. Schallenberg does not cite to any Commission precedent for his "host"  
13 transportation agreement concept, nor does he provide any rationale as to why this  
14 change in policy should be applied after the fact and selectively to Omega, but not  
15 other marketers. As MPC/MGC Witness David Ries pointed out in his Rebuttal  
16 Testimony, \*\*\_\_\_\_\_\*\* acts as agent for the other three municipal cities,  
17 \*\*\_\_\_\_\_\*\* acts as agent for several of the industrial customers and  
18 \*\*\_\_\_\_\_\*\* provides a similar agency role for \*\*\_\_\_\_\_\*\* to serve the town of  
19 \*\*\_\_\_\_\_\*\*. Importantly, Cuba also had a similar agency agreement with  
20 \*\*\_\_\_\_\_\*\* prior to the one effectuated with Omega. To date,  
21 the Commission has not required that sales and agency agreements between  
22 nonregulated marketers and customers be subject to the provisions of the pipeline's

1 tariff and have not regulated the charges provided under such sales and agency  
2 agreements.

3 Here, for the first time, Mr. Schallenberg is advocating a change in policy  
4 with regard to agency agreements. Through the “host” transportation agreement  
5 concept, Mr. Schallenberg for the first time is applying the affiliate rate provision  
6 from Section 3.2 Range of Rates of MPC’s and MGC’s tariff to agency agreements.

7 **Q. Is Mr. Schallenberg instituting a policy change on a retroactive basis?**

8 A. Mr. Schallenberg applies this change in policy on a retroactive basis. Several of the  
9 transportation rate adjustments for past periods recommended by Mr. Schallenberg  
10 are based on charges from agency agreements. Based upon the Commission’s  
11 treatment of sales and agency agreements as non-regulated agreements, MPC/MGC  
12 and Omega have relied on that existing policy.

13 **Q. Do regulatory bodies usually make policy changes on a retroactive basis?**

14 A. No. While regulatory bodies may change policy, those policy changes are typically  
15 done only on a prospective basis with input from all affected parties. It is patently  
16 unfair and inequitable to MPC/MGC for Staff to arbitrarily impose on a retroactive  
17 basis a change in policy. This is especially true given that MPC/MGC discussed with  
18 Staff the use of Omega to provide the bundled transportation and sales service in  
19 2002. (See Appendices KK and LL). Mr. Ries clearly explained to Staff that:

20 “Since Omega currently performs all the necessary functions, selling gas to  
21 other customers along the transportation path would be a natural fit... Omega  
22 currently holds transportation capacity on MPC and MGC to serve FLW and  
23 could contract for additional capacity to serve customers along the way.”

1 As Appendices KK and LL show, as early as August 2002, Mr. Ries was explaining  
2 to Staff that Omega may provide a bundled sales service and that there would be no  
3 affiliate transaction associated with Omega and MPC/MGC related to serving the  
4 cities.

5 **Q. Please explain the second criticism above concerning why transportation rates**  
6 **charged under a transportation agreement are not comparable to the bundled**  
7 **gas sales and transportation charges under agency agreements.**

8 A. The rates charged under a firm transportation agreement negotiated between a  
9 pipeline and a shipper is only for the transportation service and is subject to the  
10 regulated rate and other provisions of the pipeline's tariff. In contrast, the charges  
11 under an sales and agency agreement are negotiated between the agent and the  
12 customer and provide a bundled service, which, to date, has not been subject to the  
13 rate provisions of a pipeline's tariff.

14 **Q. Does the July 1, 2003 Natural Gas Sales and Agency Agreement between Omega**  
15 **and Cuba reduce the transportation rate stated in the 1999 Transportation**  
16 **Agreement between Cuba and MGC?**

17 A. No. The Omega-Cuba Natural Gas Sales and Agency Agreement is independent of  
18 the Cuba-MPC/MGC Transportation Agreements. The transportation rates under the  
19 Cuba-MPC/MGC Transportation Agreement are not impacted by the Natural Gas  
20 Sales and Agency Agreement. There were no additional rights or preference given to  
21 Cuba as a shipper on MPC/MGC once Omega became Cuba's agent.

22 **Q. Explain how a transportation agreement "supports" an agency agreement.**

1 A. The agent and customer enter into an agency agreement where the agent agrees to  
2 provide certain transportation and gas sales functions. The transportation functions  
3 include nominations and scheduling volumes to move on the MGC system. To fulfill  
4 its obligations under the agency agreement, the agent will make use of the existing  
5 transportation agreement with MPC/MGC. The volumes nominated by the agent all  
6 move under currently effective MPC/MGC transportation agreements.

7 **Q. Are there currently effective transportation agreements on MGC supporting**  
8 **these agency agreements?**

9 A. Yes. As was noted above, other shippers on MPC/MGC make use of agency  
10 agreements. In fact Cuba made use of an agent, prior to its agency agreement with  
11 Omega. Thus, Mr. Schallenberg's attempt to attribute affiliate status to agency  
12 agreements through his "host" transportation agreement concept is inconsistent with  
13 how other agency agreements are viewed.

14 **Q. Mr. Schallenberg takes issue with flexible delivery point rights. Are shippers**  
15 **allowed to have multiple delivery points on MPC and MGC?**

16 A. Yes. Ameren and Laclede make deliveries to multiple delivery points and have done  
17 so from the start of their transportation agreements. Marketers, like Omega, have the  
18 need for flexible point rights in providing service to their customers and have used  
19 that delivery point flexibility on MGC. There are no provisions in the MPC/MGC  
20 tariffs that would prevent the use of multiple delivery points by any shipper. In fact,  
21 interstate natural gas pipelines have been required by the Federal Energy Regulatory  
22 Commission ("FERC") to offer all shippers flexible receipt and delivery points since



1 Order No. 636 was issued in 1992. (57 Fed. Reg. 13,267 (April 16, 1992), III FERC  
2 Stats. & Regs. Preambles ¶ 30,939 (April 8, 1992).

3 **Q. Has Mr. Schallenberg made other adjustments in his rate tables based on his**  
4 **“host” transportation agreement “concept”?**

5 A. Yes. The rate adjustments made by Mr. Schallenberg in his table at the bottom of  
6 page 26 and the top of page 27 of his Direct Testimony reflect the same fundamental  
7 misunderstanding of agency agreements and are inconsistent with the Commission’s  
8 past treatment of agency agreements.

9 **Q. What conclusion do you reach about the rate adjustments made by Mr.**  
10 **Schallenberg on the tables shown on pages 24-27 of his Direct Testimony as they**  
11 **relate to agency agreements?**

12 A. I conclude that these rate adjustments are flawed and misleading as they are premised  
13 on faulty conclusions regarding the role and impact of agency agreements. More  
14 importantly, the proposed rate adjustments, based on charges from agency  
15 agreements, would reflect a fundamental change in policy with regard to agency  
16 agreements that should only be effectuated on a prospective basis. There has been no  
17 circumvention of the affiliate rules, and the agency agreements entered into by  
18 Omega are consistent with other agency agreements on the MPC/MGC system.  
19 Moreover, there are currently effective transportation agreements supporting all  
20 agency agreements, so all volumes moved under the agency agreements are properly  
21 accounted for by MPC/MGC. Consequently, no rate adjustments can be justified  
22 based on Mr. Schallenberg’s “host” transportation agreement concept, which attempts  
23 to tie the agency agreements to transportation agreements. Agency agreements and

1           their stated charges should be “off the table” prior to making any comparisons of  
2           transportation rates.

3   **Q.    In your opinion, should any fines or penalties be assessed on MPC/MGC because**  
4   **of the agency agreements entered into by MPC/MGC’s former affiliate, Omega?**

5   A.   No. The agency agreements are and have been used on MPC/MGC by others, such as  
6       \*\* \_\_\_\_\_ \*\*.   Further, as I  
7       stated in my Rebuttal Testimony, small cities and end-users find the use of agency  
8       agreements beneficial as it relieves them of certain functions required by natural gas  
9       pipelines. It is quite reasonable for MPC/MGC to rely on these precedents, which  
10      should equally apply to Omega and its agency agreement with Cuba. Rather than  
11      assess a penalty, MPC/MGC could be required (which it is not currently) to identify  
12      which parties are acting as agents on their system to the Commission.

13   **Q.    Regarding the third criticism, why should Mr. Massmann have questioned Mr.**  
14   **Schallenberg’s comparison of individual rate components in his analysis?**

15   A.   As I mentioned above, the MPC/MGC tariffs set forth a methodology required to be  
16       used when making transportation agreement rate comparisons. Specifically,  
17       Paragraph 3.2(b)(4) of the firm transportation rate schedule of both the MPC tariff  
18       (P.S.C. MO 2, Sheet No. 6) and MGC tariff (P.S.C. MO 2, Sheet No. 6) provides that:

19               “Rate comparisons for compliance with these provisions will be calculated  
20               assuming a 25% load factor.” (See Exhibit MM).

21  
22       This condition was required to be inserted into the tariffs by the MPSC in its October  
23       12, 1994 Report and Order in Case No. GM-94-252, where the MPC/MGC assets  
24       were acquired by UtiliCorp United Inc.

1   **Q.     Why is it appropriate to use the 25% load factor requirement to compare rates**  
2       **in this proceeding?**

3   A.     The rate methodology is especially appropriate in this case in order to compare rates  
4       of various shippers on a comparable basis. As an example, the Cities of Waynesville,  
5       St. James and St. Robert paid a \*\*\_\_\_\_\_\*\* per Dth reservation rate and a \*\*\_\_\_\_\_\*\*  
6       per Dth commodity rate for firm transportation on MGC. However, a similarly-  
7       situated shipper, the City of Cuba, had a contract with MGC which provides for a  
8       reservation rate of \*\*\_\_\_\_\_\*\* per Dth and a commodity rate of \*\*\_\_\_\_\_\*\* per  
9       Dth. As I explained in my Rebuttal Testimony, when compared on a 25% load factor  
10      basis as provided by the MPC/MGC tariffs, the rates for the cities of Waynesville, St.  
11      James, St. Robert and Cuba are nearly equivalent.

12   **Q.     Did Mr. Massmann or Mr. Schallenberg follow the rate comparison**  
13      **methodology as stated in the MPC/MGC tariffs?**

14   A.     No. I cannot stress enough that it is necessary to use the rate comparison  
15      methodology required by the tariff because this methodology places all shipper's  
16      rates on a comparable basis. Mr. Schallenberg's failure to compare the transportation  
17      rates on a comparable or total rate basis results in incorrect and misleading  
18      conclusions regarding affiliate rates.

19   **Q.     Please explain the fourth criticism above – that Omega is, in fact, paying the**  
20      **highest rates of any shipper on MGC.**

21   A.     Mr. Massmann relies on the Staff Direct Testimony to support the assumption that  
22      transportation discounts were provided to an affiliate. The discount adjustments  
23      proposed by Staff were based on the Direct Testimony of Staff witness Schallenberg.

1           On page 21 of his Direct Testimony, Mr. Schallenberg concludes that rate discounts  
2           were offered to affiliates in violation of Section 3.2 Range of Rates of MPC's and  
3           MGC's tariff. Once again, this section of the tariff states that the lowest  
4           transportation rate charged to an affiliate shall be the maximum rate that can be  
5           charged to non-affiliates.

6           In my Rebuttal Testimony I presented charts comparing each shipper's rates  
7           on MPC and MGC using the 25% load factor specified in the tariffs for rate  
8           comparisons. For MPC, my analysis showed that both Omega and the City of Cuba  
9           are paying the highest rates on the system. Further, my analysis showed that Omega  
10          is paying the highest rate on the MGC system.

11          On this basis, I conclude that Omega was paying rates equal to or higher than  
12          all other transportation shippers. No non-affiliated shipper was being charged a rate  
13          higher than any MPC/MGC affiliate. Consequently, MPC/MGC has not violated  
14          their tariffs with regard to rates charged to affiliates.

15   **Q. Do the analysis and criticisms that you presented above raise doubts about any**  
16   **of the rate adjustments made by Mr. Schallenberg?**

17   A. Yes. Mr. Schallenberg makes an adjustment to the firm commodity rate for non-  
18   affiliates on the table at the top of page 26 of his Direct Testimony based on  
19   transportation rates paid by Omega under its transportation agreement with MGC for  
20   service to Fort Leonard Wood ("Fort").

21   **Q. Why is the rate paid for service to the Fort important?**

22   A. It is important to understand that the maximum tariff rates for service to the Fort are  
23   different than the transportation rates for deliveries elsewhere on the MGC system.

1 Maximum transportation rates to the Fort as set forth in the MGC tariff include a  
2 \*\*\_\_\_\_\_\*\* per Dth reservation rate and a \*\*\_\_\_\_\_\*\* per Dth commodity rate, while  
3 delivery points elsewhere have a maximum reservation rate of \*\*\_\_\_\_\_\*\* per Dth  
4 and a maximum commodity rate of \*\*\_\_\_\_\_\*\* per Dth.

5 Only by making the comparison of MGC rates on an equivalent basis, as the  
6 25% load factor method does, is it possible to meaningfully compare transportation  
7 rates charged. As my Rebuttal Testimony explained, Omega is paying the highest  
8 rate on the system when analyzed on a comparable basis; thus, no adjustment to the  
9 Omega rates is appropriate. Consequently, Mr. Massmann's reliance upon Mr.  
10 Schallenberg's proposed adjustment, based on the Omega transportation rates, is  
11 flawed as it fails to make a comparison of rates on an equivalent basis.

12 **Q. On page 7 of his Rebuttal Testimony, Mr. Massmann states that AmerenUE**  
13 **seeks a refund from MPC and MGC in an amount equal to all such overcharges.**  
14 **Did Mr. Massmann calculate what he believed the overcharges were?**

15 A. No. Mr. Massmann does not set forth any specific refund amount or methodology to  
16 calculate such a refund. As I explain above, Mr. Massmann's conclusions with  
17 regard to discounts are totally dependent on the testimony of Staff witness  
18 Schallenberg. Staff witness Schallenberg's rate analysis is based on faulty  
19 assumptions and does not support his allegation that MPC/MGC provided rate  
20 discounts to affiliates. Any analysis and comparison of transportation rates needs to  
21 be done on a comparable basis according to the methodology set forth in the tariff,  
22 which Mr. Schallenberg has failed to do. My analysis of rates shows that Omega is  
23 paying rates higher than or equal to all shippers on MPC and is paying the highest

1 rate of all shippers on MGC. Thus, no refunds are due and no penalties are warranted  
2 as the tariff has not been violated concerning the rate charged to affiliates.

3 **Q. Is MPC or MGC charging the AmerenUE shippers more than was charged to**  
4 **Omega on either MPC or MGC?**

5 A. No. As shown in the tables on pages 23-26 of my Rebuttal Testimony, Omega was  
6 paying \*\*\_\_\_\_\_\*\* per Dth on MPC while AmerenUE's rate on MPC was  
7 \*\*\_\_\_\_\_\*\*; Omega's rate on MGC was \*\*\_\_\_\_\_\*\* while AmerenUE's average  
8 transportation rate was \*\*\_\_\_\_\_\*\*. Thus, Omega was paying a higher rate than  
9 AmerenUE on both MPC/MGC. Consequently, there are no refunds due AmerenUE  
10 based on the rates charged to Omega because the rates AmerenUE was paying are  
11 substantial discounts to the rates that Omega was paying.

12 **Q. Has Mr. Massmann or any other witness offered evidence or testimony on**  
13 **refund amounts which they believe would be due shippers?**

14 A. No. Neither Mr. Massmann nor Staff offer evidence detailing what refunds they  
15 believe may be due.

16 **Conclusion**

17 **Q. Please summarize your conclusions on the allegations raised in this proceeding.**

18 A. No witness has supported or justified the allegations against MPC/MGC on any of the  
19 counts. MPC/MGC has offered testimony and exhibits rebutting and answering all of  
20 the charges and counts raised in this proceeding.

21 **Q. Does Mr. Massmann state any particular dollar amount that Ameren is**  
22 **requesting in refunds or penalties?**

1 A. No, he does not. AmerenUE simply relies on Mr. Schallenberg's Direct Testimony as  
2 to the merit of the assessment of refunds or penalties.

3 **Q. Did Mr. Massman undertake any independent assessment of Schedule 25 to Mr.**  
4 **Schallenberg's Direct Testimony as to the accuracy of any of those alleged**  
5 **violations by MPC/MGC and their tariff?**

6 A. No. In that light, it is important to note that Schedule 25 of Mr. Schallenberg's Direct  
7 Testimony is almost entirely dependent on Mr. Schallenberg's incorrect and  
8 unsubstantiated "host" transportation agreement concept. Almost all of Mr.  
9 Schallenberg's alleged tariff violations listed in Schedule 25 relate to the claim that  
10 MGC's pre-existing discounted transportation rate to Cuba should be treated as a  
11 discount to Omega. Without this "host" concept, all of these alleged violations of the  
12 tariff fall off the list. The few remaining alleged violations on the list relate to either  
13 the allegation (i) that the Omega contracts with \*\*\_\_\_\_\_\*\*  
14 \_\_\_\_\_\*\* should have been reported as "affiliate transactions" or that (ii)  
15 MPC/MGC shared personnel with Omega without Commission approval. With  
16 respect to (i) above, neither \*\*\_\_\_\_\_\*\* were affiliates of  
17 MPC/MGC, so there was no tariff obligation to report contracts between two non-  
18 regulated affiliates. As to the shared personnel claims, I explained in my Rebuttal  
19 Testimony, as did Mr. Ries in his Rebuttal Testimony, that Staff had been told that  
20 Mr. Ries represented MPC/MGC and Omega. For Staff to complain four years later  
21 that such an arrangement is not acceptable now is arbitrary and certainly unfair to  
22 MPC/MGC.

23 **Q. Do you believe that any fines or penalties are warranted in this proceeding?**

1 A. No. There is clearly no basis for any of the refunds sought by Staff and other parties  
2 as it has been shown that MPC/MGC did not favor affiliates over non-affiliates based  
3 on the rates charged to Omega. As the MPC/MGC testimony has shown, Omega is  
4 the only affiliate that received transportation service during the period raised in  
5 Staff's complaint, and Omega was paying the maximum transportation rates on MPC  
6 and the highest transportation rate of any shipper on the MGC system.  
7 Consequently, all the counts and allegations concerning discounts and transportation  
8 agreements raised in this proceeding are without merit and should be dismissed. No  
9 refunds are due and no penalties should be imposed as MPC/MGC did not violate  
10 their tariffs with regard to rates charged to affiliates,

11 Moreover, MPC/MGC testimony presented by Mr. Ries and I have fully  
12 addressed and countered all other counts raised by Staff in its complaint. Based on  
13 our review of the facts, there is no justification for requiring refunds or the issuance  
14 of fines on any of the counts raised.

15 **Q. Are there other factors that the Commission should consider when determining**  
16 **whether any fines or penalties are warranted?**

17 A. Yes. Many of the issues and allegations raised by Staff are not new. Staff is now  
18 raising allegations regarding issues that were known to them for several years. Since  
19 2002, Staff has been aware of the rate issues concerning the St. James and Cuba  
20 agreements. Staff has also been aware of Dave Ries's positions at Omega and  
21 MPC/MGC. In addition, the agency agreements that Omega entered into while it was  
22 an affiliate of MPC/MGC were similar to others agency agreements already in effect.  
23 Specifically, \*\*\_\_\_\_\_\*\* provided the same agency services for



1 Cuba as Omega is providing presently. The \*\*\_\_\_\_\_\*\* agency  
2 services were not construed as transportation without a contract. The Cuba  
3 MPC/MGC transportation agreements were pre-existing and were entered into freely  
4 by Cuba. The price paid under the Cuba MPC/MGC transportation agreements is  
5 comparable to the transportation rates paid by the three cities for which \*\*\_\_\_\_\_\*\* is  
6 the agent. Further, in 2002, Staff was aware MPC/MGC may use a marketing  
7 affiliate to assist small customers in their gas supply needs, instead of allowing  
8 MPC/MGC to revise their tariffs to allow for a gas sales service by MPC/MGC.

9 **Q. What is the consequence of Staff waiting for several years before raising issues**  
10 **and allegations concerning MPC/MGC?**

11 A. Such a delay is both confusing and unfair to MPC/MGC. MPC/MGC acted in good  
12 faith and followed Commission policy and industry practice. Yet, Mr. Schallenberg  
13 decided to change policy retroactively.

14 **Q. Does that conclude your testimony?**

15 A. Yes it does.

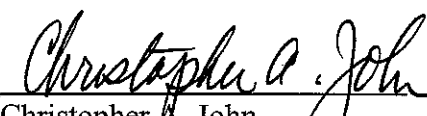
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION

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

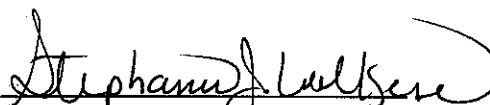
**AFFIDAVIT OF CHRISTOPHER A. JOHN**

DISTRICT OF	)	
	)	ss.
COLUMBIA	)	

Christopher A. John, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 21 pages of testimony to be presented in the above case; that the answers in the foregoing Surrebuttal 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 10<sup>th</sup> day of November, 2006.

  
\_\_\_\_\_  
Notary Public

My Commission expires: **June 14, 2009**