

AFFIDAVIT OF KURT GREGSON  
GE-2011-0282

STATE OF MISSOURI                     )  
  ) ss  
COUNTY OF JACKSON                 )

I, Kurt Gregson, do hereby state:

1. I am employed by Southern Union Company d/b/a Missouri Gas Energy ("MGE") as its Director of Gas Supply. The primary responsibilities of this position include a) the planning and acquisition of a supply and transportation/storage capacity portfolio to provide reliable gas service to MGE's customers; b) the management of that supply and capacity portfolio to minimize cost to customers; and c) regulatory responsibilities associated with these supply/capacity acquisition and management responsibilities. I have more than 25 years of experience in the energy industry and have worked with a variety of companies in energy supply departments, gas control, transportation, marketing and trading, including nine years in the electric industry in a Fuels capacity.

2. I am familiar with this proceeding and have reviewed the contracts entered into by MGE and Panhandle Eastern Pipeline Company (Panhandle Eastern). I have also familiarized myself with the transportation and storage contracts entered into between Panhandle Eastern and its other customers.

3. Specifically, I reviewed MGE's previous contracts with Panhandle Eastern as well as recent Panhandle Eastern terms with other local distribution companies. Over the past twenty years, when unsubscribed capacity on Panhandle Eastern's system was more plentiful, its

forward-haul transportation service was significantly discounted, even during the winter season, when reliability requirements for LDCs like MGE are most critical given the seasonality of LDCs heavily residential demand. This is the type of transportation service that MGE uses with Panhandle.

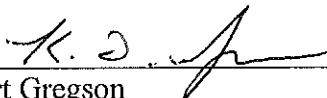
4. Panhandle Eastern's unsubscribed pipeline capacity began to shrink in the late 1990's through early-2000's and market conditions changed. As a result, Panhandle Eastern's transportation capacity became more valuable and, with very few exceptions, Panhandle renegotiated customer contracts at maximum tariff rates as they came up for renewal.

5. Currently, Panhandle Eastern transportation agreements with discounts are predominantly for secondary deliveries and receipts or for summer time power generation load (June-September), which are services that are not similar to the service used by MGE. I also observed that Panhandle Eastern has entered into a few slightly discounted forward-haul contracts that have been coupled with Trunkline Gas Company capacity for a resulting rate that equals the full Panhandle Eastern rate.

6. At the time of MGE's most recent contract renewals with Panhandle Eastern in March 2010 and since that date, there have been no primary, year round discounts given to local distribution companies for Panhandle Eastern transportation service. Also, Panhandle Eastern does not currently have any discounts for Field Zone – No Notice Storage, which is the type of storage service that MGE has with Panhandle Eastern. For the storage contract renewal, MGE went through the Right of First Refusal (ROFR) process and was forced to match the market demand of a maximum rate and a 21 year contract term to retain the service.

7. Kinder Morgan's Pony Express pipeline and PostRock's KPC pipeline, both of which provide transportation service to MGE's service territory, have recently announced that

they may convert these natural gas pipelines to oil pipelines. MGE relies on Kinder Morgan's Pony Express pipeline to transport 100,000 dth/day to its service territory and its unavailability (due to conversion from natural gas to oil transportation service) would require MGE to obtain replacement supply. It is likely that no single pipeline would have sufficient unsubscribed capacity available to replace the entirety of the 100,000 lost due to the conversion of Kinder Morgan's Pony Express pipeline. MGE would therefore likely be required to seek replacement capacity from Panhandle Eastern. Continued imputation of non-existent discounts for additional service taken by MGE on Panhandle Eastern would serve to increase the negative financial impact already associated with MGE's service from Panhandle Eastern. These discounts do not reflect current market conditions and their continued imputation may thus distort the decision making process by causing MGE, for the protection of its own financial interests, to contract for transportation service that may not be as beneficial to its customers as the use of Panhandle Eastern's non-discounted service.

  
Kurt Gregson

Subscribed and sworn to before me this 19<sup>th</sup> day of September, 2011.

  
Notary Public

My Commission Expires: 10/5/13

