Exhibit No.:	
Issue:	*MGE's WaiverRequest*
Witness:	*Anne M. Allee*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*GE-2011-0282*
Date Testimony Prepared:	*December 15, 2011*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES DEPARTMENT

REBUTTAL TESTIMONY

OF

ANNE M. ALLEE

SOUTHERN UNION COMPANY,
d/b/a Missouri Gas Energy

CASE NO. GE-2011-0282

Jefferson City, Missouri
December 2011

** **Denotes Highly Confidential Information** **

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REBUTTAL TESTIMONY

OF

ANNE M. ALLEE

SOUTHERN UNION COMPANY,
d/b/a Missouri Gas Energy

CASE NO. GE-2011-0282

Q. Please state your name and business address.

A. Anne M. Allee, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated in 1989 from the University of Missouri - Columbia with a Bachelor of Science degree in Accounting. I am currently a licensed Certified Public Accountant in the State of Missouri.

Q. What has been the nature of your duties at the Commission?

A. My employment with the Commission began in October 1990 as a Regulatory Auditor in the Commission's Accounting Department. My duties included assisting with audits and examinations of the books and records of utility companies operating within the State of Missouri.

In October 1993, I obtained my current position as a Regulatory Auditor in the Procurement Analysis Department. Since that time, my responsibilities have included reviewing and analyzing amounts charged by natural gas local distribution companies (LDCs) through the Purchased Gas Adjustment (PGA)/Actual Cost Adjustment (ACA) mechanism.

Q. Have you previously filed testimony before this Commission?

A. Yes. Schedule 1, attached to my rebuttal testimony, is a list of cases in which I have filed testimony.

Q. With respect to Case No. GE-2011-0282, have you reviewed Missouri Gas Energy's (MGE or Company) request for a waiver/variance from the Commission's Order in Case GM-2003-0238?

A. Yes. I reviewed the Stipulation and Agreement (Stipulation) in Case No. GM-2003-0238 and MGE's request for a waiver/variance from the Commission's Order in that case.

Q. What knowledge, skill, experience training or education do you have in these matters?

A. Since my time in Procurement Analysis, I have performed and/or assisted in performing numerous ACA reviews which includes the application of the Panhandle Eastern Pipe Line (PEPL) discount condition from the Stipulation in Case GM-2003-0238.

Q. What is the purpose of your rebuttal testimony?

A. MGE witness, Michael Noack, filed direct testimony regarding MGE's waiver request. MGE witness, Kurt Gregson, filed direct testimony regarding the availability of discounts on PEPL. The purpose of my testimony is to respond to each of MGE's witness' direct testimony regarding the Company's discount waiver request.

EXECUTIVE SUMMARY

Q. Please summarize the issue addressed in your rebuttal testimony.

A. Staff is opposed to MGE's request for waiver/variance from the Commission's Order in Case No. GM-2003-0238 approving the Stipulation and Agreement. MGE's request is not consistent with the Stipulation, nor is it consistent with Robert Hack's sworn testimony to the Commission regarding the Stipulation. The Company has not presented any compelling reason to warrant termination of the discount provision in the Stipulation and Agreement.

MGE's Waiver Request

Q. Please briefly explain the background of this case.

A. On January 13, 2003, Southern Union Company, d/b/a MGE filed an Application with the Commission for authority to acquire, directly or indirectly up to and including one hundred percent equity interest of Panhandle Eastern Pipe Line Company, including its subsidiaries in Case No. GM-2003-0238. On March 25, 2003 the parties filed a Stipulation recommending approval of the transaction. On March 27, after an on-the-record presentation with sworn testimony, the Commission approved the Stipulation subject to the conditions on which all parties agreed. The Stipulation contained the following condition in paragraph 6.A.:

> MGE agrees, for purposes of calculating its purchase gas adjustment ("PGA") and actual cost adjustment ("ACA") rates, to maintain at least the same percentage of discount it is currently receiving on Panhandle and Southern Star Central for purposes of transportation and storage costs passed through the PGA clause to MGE's ratepayers as provided in Highly Confidential <u>Appendix 2</u> hereto.

. . .

> ….This paragraph 6.A. shall apply for only so long as MGE is an affiliate of SUPC [Southern Union Panhandle Corporation] and Successor Entities.

Q. What was the significance of Southern Union's (SU) acquisition of PEPL?

A. PEPL provides MGE interstate pipeline services. MGE purchases transportation and storage capacity from PEPL. MGE passes these costs to its customers through the PGA/ACA process. Upon SU's acquisition of PEPL, MGE and PEPL became affiliates <u>with conflicting interests</u>. The conflicting interests arise because MGE should try to obtain reliable pipeline services at the lowest price, consistent with reliability. In contrast, PEPL tries to maximize the price it charges for its services. This conflict of interest arises because SU controls both PEPL and MGE.

Q. What was the purpose of the PEPL discount condition?

A. The purpose is to address the concern of competing interests between affiliates and reduce the detriment of higher ACA/PGA rates for MGE's customers. To assure the merger did not result in a detriment to MGE's customers, the parties agreed to the provision that MGE would not charge its customers higher rates than the rates it was paying PEPL at the time of the merger.

The rates MGE was paying at the time of the merger included discounts MGE obtained from PEPL during the contract negotiations prior to the companies becoming affiliates. Prior to the affiliate relationship, MGE and PEPL should have been negotiating at arm's-length, so it was reasonable to assume MGE obtained the lowest costs possible for transportation and storage services from PEPL.

Q. Did all signatory parties agree to this provision of the Stipulation?

A. Yes.

Q. Was there a provision in the Stipulation that would terminate this condition?

A. Yes. The Stipulation states this condition shall apply for only so long as MGE is an affiliate of SUPC and Successor Entities.

Q. Have you reviewed MGE's waiver request?

A. Yes, I have.

Q. Please describe MGE's request?

A. In the current case, MGE is seeking a waiver/variance from the condition contained in paragraph 6.A. in the Stipulation in Case No. GM-2003-0238 (Noack page 4, lines 9-16). MGE requests that the Commission allow it to calculate its PGA/ACA rates using its PEPL actual transportation and storage costs beginning July 1, 2010 instead of using PEPL discounted rates required by the Stipulation (Noack page 2, lines 20-23 and page 3, lines 1-3).

Q. Are MGE and PEPL still affiliates?

A. Yes.

Q. Mr. Noack states MGE is required to utilize transportation and storage expense in the calculation of its PGA that is less than its actual expense (Noack page 5, lines 21-23).

A. Yes. However, MGE knowingly entered into the Stipulation and agreed to maintain its rates on PEPL regardless of future events in order to complete the PEPL merger. When MGE and PEPL are no longer affiliates that condition will end.

Q. Mr. Noack states MGE has imputed non-existent discounts of approximately ** ____________ ** from July 2005 through June 2010 through ACA adjustments. Do you agree with this statement?

A. Yes. I agree MGE has adjusted its ACA balance by this amount for this time period. However, in its most recent ACA Staff detected a slight error in this amount so that the corrected amount should be ** ____________. **

Q. Do you have any information that would indicate MGE understood and accepted that risk at the time it entered into the Stipulation?

A. In response to questions from the Commission in the March 26, 2003 Presentation of the Stipulation Mr. Hack testified:

> COMMISSIONER GAW: . . . I understand that there's an understanding in the stip that the current discounts that are there will stay in place. I'm not clear, I can't recall if there was a -- how long that is intended to go on or is anticipated to go on.
>
> MR. HACK: Well, let me just clarify that. **It's intended to go as long -- it's intended to run as long as there is a relationship, an affiliate relationship between MGE and Southern Union Panhandle.** What it -- what the provision actually says is that for purposes of calculating MGE's PGA rates, that discount will be used.
>
> Our contracts with Panhandle run -- again, I'm running from the top of my head -- through I'm going to say October or August of '05. So there will be no change in the contract between now and then.
>
> To the extent there is a change in the contract thereafter, it will be whatever we're able to negotiate with the Panhandle. **But for purposes of our PGA rates, we will -- we will continue to use that discount percentage**.
>
> So Panhandle will be able to comply with its non-discrimination standard at the FERC level by charging us what they're able to negotiate. We will try to protect our interests in those negotiations as best we can, but for purposes of PGA setting, that's what we've agreed to.

COMMISSIONER GAW: I may catch you coming and going here. I apologize for that. I'm just trying to understand both sides of this.

MR. HACK: That's fair.

COMMISSIONER GAW: If you get to that point where the contracts are renegotiated, if it -- if it were feasible or if it were possible to get a lower rate, discount rate --

MR. HACK: Right.

COMMISSIONER GAW: --would the PGA then reflect that?

MR. HACK: Absolutely.

COMMISSIONER GAW: But if there is a higher rate, you can't negotiate the same rate, the PGA would still reflect the current, the current discount?

MR. HACK: Correct.

COMMISSIONER GAW: Here's the other side that I want to understand. Is it foreseeable that the FERC could suggest if, for instance, discounts given to other LDCs were not as good, that the FERC could say, you cut a special deal here and we're not going to allow that discount? Is it possible that that could occur with the rules contemplated on affiliate transactions that are out there?

MR. HACK: Well, I don't think that the affiliate rules would change the result one way or the other.

COMMISSIONER GAW: All right.

MR. HACK: If there's a special deal that can't be justified as, quote, due discrimination, then there is that kind of possibility, but -- and that's why we structured the condition here the way we did, to be in agreement to MGE not to pass on any more than the discount level. Whatever the negotiations are going to be, they're going to be based upon the Panhandle's need to comply with the law.

COMMISSIONER GAW: Yeah. Okay. So if they -- if Panhandle has to raise its rates because of that scenario -- and I realize what may be very farfetched -- but in that event, the PGA would actually reflect the change under this agreement or not?

MR. HACK: It would not. We would pay the rate, but the PGA rate wouldn't reflect it. They would charge whatever they charge. (emphasis added)

The discussion above indicates MGE knowingly and willingly agreed to maintain the pre-affiliate rates so long as MGE and PEPL were affiliated.

Response to Mr. Gregson

Q. Mr. Gregson discusses on pages 3-5 that market conditions have changed such that PEPL capacity has become more valuable as it has become fully subscribed.

He also states MGE was unable to obtain any transportation or storage discounted rates with PEPL during its most recent contract renewal. Do you disagree with Mr. Gregson's explanations?

A. No. Although a review of the PEPL June 9, 2011 Customer Presentation shows that PEPL has 30,000 Dth/day of available capacity that was not available last year, so PEPL is not currently fully subscribed. It is possible discounted rates may become available in the future if the availability of PEPL capacity continues to increase. Additionally, as noted above Mr. Hack testified that MGE anticipated rates could change and told the Commission it would maintain the discounts regardless.

Q. Do you agree this is a reason for the Commission to approve MGE's waiver request?

A. No. MGE testified to the Commission it would maintain the same rates to its customers that existed at the time of the Stipulation.

Q. Mr. Gregson discusses the possibility of MGE needing to obtain additional PEPL capacity if Kinder Morgan's Pony Express pipeline and PostRock's KPC pipeline convert their pipelines to oil. He states continuation of this condition would distort the decision making process and could encourage MGE to contract for capacity that might not be as beneficial to MGE's customers as PEPL's capacity (Gregson page 7 lines 4-9). What are your thoughts in this area?

A. Mr. Gregson is discussing a possibility that may never occur. If these pipelines convert from transporting natural gas and convert to oil, and that creates transportation problems for MGE, it can come to the Commission at that time.

Q. Mr. Gregson discusses the Federal Energy Regulatory Commission's (FERC) Standards of Conducts rules (page 7, lines 11-31 and page 8, lines 1-24). He goes on to explain that the Commission should conclude that the existence of FERC Standards of Conduct rules and Staff's annual ACA audit of MGE provide adequate protection for MGE's customers without the need for the discount provision (page 8, lines 26-32). Do you agree with his suggestion this is sufficient protection for MGE's ratepayers?

A. No. The FERC's rules are not an issue in this case. MGE's sworn agreement to a condition in the PEPL Stipulation is the issue. FERC's Standards of Conduct rules do not prevent MGE's customers from paying higher rates than MGE told this Commission its customers would pay. Additionally, FERC's Standards of Conduct do not prevent MGE from paying PEPL more for transportation capacity than it would pay for the capacity absent the affiliate relationship. Neither FERC's rules nor the ACA review are adequate substitutes for MGE's compliance with its agreements.

Q. What is Staff's position with regard to MGE's waiver request?

A. SU made the decision to acquire PEPL. MGE was aware of the Commission's affiliate transactions rules. Therefore, SU knew that PEPL would become an affiliate of MGE and SU's acquisition of PEPL would create a conflict of interest.

The possibility that MGE's discounted transportation and storage rates on PEPL would not continue to be available to MGE in the future was a risk MGE knowingly accepted. Likewise, SU is a sophisticated company and knew and understood the risks that existed at the time it entered into the Stipulation.

Not only did MGE and SU understand the provision into which they entered, the Stipulation's terms are interdependent. MGE should not be allowed to obtain a waiver from a condition that was known and accepted by SU and MGE at the time MGE signed the Stipulation.

For these reasons, Staff is opposed to MGE's request for waiver/variance from the Commission's Order in Case No. GM-2003-0238. MGE's request is inconsistent with the negotiated agreement reached by the parties and approved by the Commission in Case No. GM-2003-0238. The Staff does not believe the Company has presented a compelling reason to terminate the discount provision in the Stipulation.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Southern Union Company d/b/a Missouri Gas Energy's Application for Waiver/Variance	)))	Case No. GE-2011-0282

AFFIDAVIT OF ANNE M. ALLEE

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Anne M. Allee, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Anne M. Allee

Anne M. Allee

Subscribed and sworn to before me this 15th day of December, 2011.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

SUMMARY OF TESTIMONY
ANNE M. ALLEE

Company Name	Case Number	Issues
Choctaw Telephone Company	TR-91-336	Payroll; Payroll Taxes; Employee Pensions/Benefits; Voucher Analysis; Other Misc. Expenses
Laclede Gas Company	GR-92-165	Payroll; Payroll Taxes; Employee Pensions and Benefits
United Cities Gas Company	GR-93-47	Rate Base; CWC; Dues & Donations; Misc. Expenses
St. Louis County Water Company	WR-93-204	Rate Base; CWC; Dues & Donations; Misc. Expenses
Ozark Natural Gas Company	GA-96-264	Cost of Gas per Dth; Reliability of Transportation
Missouri Gas Energy Company	GR-96-285	Natural Gas Storage Inventory Prices
St. Joseph Light and Power Company	GR-96-47	Gas Purchasing Practices
Union Electric Company	GR-97-393	Natural Gas Storage Inventory Prices
Missouri Public Service	GR-96-192	Winter Storage Allocation; Overrun Penalties
Missouri Gas Energy	GR-98-140	Natural Gas Storage Inventory Prices
Ozark Natural Gas Company	GA-98-227	Cost of Gas per Dth; Reliability of Supply and Transportation
St. Joseph Light and Power Company	GR-99-246	Natural Gas Inventory Prices
UtiliCorp United Inc. and St. Joseph Light and Power Company	EM-2000-292	Conditions to be Made Part of Approved Merger
Atmos Energy Corporation and United Cities Gas Company	GR-2001-396 & GR-2001-397 (Consolidated)	Purchasing Practices – Neelyville; Purchasing Practices-Consolidated District; Deferred Carrying Cost Balance; Propane
Missouri Gas Energy	GR-2001-382, GR-2000-425, GR-99-304 & GR-98-167 (Consolidated)	Purchasing Practices; Refunds

Company Name	Case Number	Issues
Union Electric Company	GR-2003-0517	Gas Inventories
Missouri Gas Energy	GR-2004-0209	Gas Inventory, Capacity, Release and Gas Purchasing Practices
Missouri Gas Energy	GR-2006-0422	Gas Inventory, Uncollectible Expense and ACA documentation
Union Electric Company	GR-2007-0003	Gas Inventory, ACA documentation
Missouri Gas Energy	GR-2007-0256	Billing Error
Missouri Gas Energy	GR-2009-0355	Capacity Release and Off-System Sales
Laclede Gas Company	GR-2010-0171	Natural Gas Underground Storage and Gas Supply Incentive Plan
Laclede Gas Company	GC-2011-0006	Stipulation and Agreement in Case No. GM-2001-342