

*Exhibit No.:*  
*Issue:* MGE's Waiver Request  
*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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1 companies (LDCs) through the Purchased Gas Adjustment (PGA)/Actual Cost  
2 Adjustment (ACA) mechanism.

3 Q. Have you previously filed testimony before this Commission?

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

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

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

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

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

18 Q. What is the purpose of your rebuttal testimony?

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

1 **EXECUTIVE SUMMARY**

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

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

9 **MGE's Waiver Request**

10 Q. Please briefly explain the background of this case.

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

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

26 . . .

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

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

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

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

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

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

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

24 A. Yes.

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

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

5 Q. Have you reviewed MGE's waiver request?

6 A. Yes, I have.

7 Q. Please describe MGE's request?

8 A. In the current case, MGE is seeking a waiver/variance from the  
9 condition contained in paragraph 6.A. in the Stipulation in Case No. GM-2003-0238  
10 (Noack page 4, lines 9-16). MGE requests that the Commission allow it to calculate its  
11 PGA/ACA rates using its PEPL actual transportation and storage costs beginning July 1,  
12 2010 instead of using PEPL discounted rates required by the Stipulation (Noack page 2,  
13 lines 20-23 and page 3, lines 1-3).

14 Q. Are MGE and PEPL still affiliates?

15 A. Yes.

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

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

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

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

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

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

11 COMMISSIONER GAW: . . . I understand that there's an  
12 understanding in the stip that the current discounts that are  
13 there will stay in place. I'm not clear, I can't recall if there  
14 was a -- how long that is intended to go on or is anticipated  
15 to go on.

16 MR. HACK: Well, let me just clarify that. **It's intended**  
17 **to go as long -- it's intended to run as long as there is a**  
18 **relationship, an affiliate relationship between MGE and**  
19 **Southern Union Panhandle.** What it -- what the provision  
20 actually says is that for purposes of calculating MGE's  
21 PGA rates, that discount will be used.

22 Our contracts with Panhandle run -- again, I'm  
23 running from the top of my head -- through I'm going to  
24 say October or August of '05. So there will be no change  
25 in the contract between now and then.

26 To the extent there is a change in the contract  
27 thereafter, it will be whatever we're able to negotiate with  
28 the Panhandle. **But for purposes of our PGA rates, we**  
29 **will -- we will continue to use that discount percentage.**

30 So Panhandle will be able to comply with its non-  
31 discrimination standard at the FERC level by charging us  
32 what they're able to negotiate. We will try to protect our  
33 interests in those negotiations as best we can, but for  
34 purposes of PGA setting, that's what we've agreed to.

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

4 MR. HACK: That's fair.

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

8 MR. HACK: Right.

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

11 MR. HACK: Absolutely.

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

15 MR. HACK: Correct.

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

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

25 COMMISSIONER GAW: All right.

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

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

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



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

3           **Response to Mr. Gregson**

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

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

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

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

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

19          Q.     Mr. Gregson discusses the possibility of MGE needing to obtain additional  
20          PEPL capacity if Kinder Morgan's Pony Express pipeline and PostRock's KPC pipeline  
21          convert their pipelines to oil. He states continuation of this condition would distort the  
22          decision making process and could encourage MGE to contract for capacity that might

1 not be as beneficial to MGE's customers as PEPL's capacity (Gregson page 7 lines 4-9).

2 What are your thoughts in this area?

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

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

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

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

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

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

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

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

14          Q.     Does this conclude your rebuttal testimony?

15          A.     Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

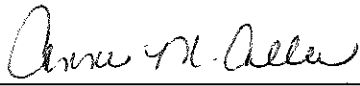
In the Matter of Southern Union Company )  
d/b/a Missouri Gas Energy's Application for )  
Waiver/Variance )

Case No. GE-2011-0282

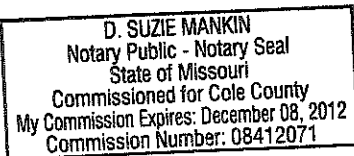
AFFIDAVIT OF ANNE M. ALLEE

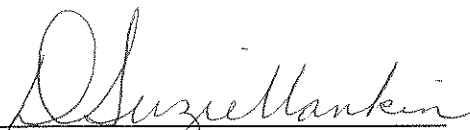
STATE OF MISSOURI     )  
                                  )  
COUNTY OF COLE     )     ss.

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

Subscribed and sworn to before me this 15<sup>th</sup> day of December, 2011.



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

**SUMMARY OF TESTIMONY**  
**ANNE M. ALLEE**

<b>Company Name</b>	<b>Case Number</b>	<b>Issues</b>
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

<b>Company Name</b>	<b>Case Number</b>	<b>Issues</b>
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