

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

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

STAFF'S RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and in response to the Commission's Order Directing Filing, submits its Recommendation. Staff concludes that granting MGE's request to be relieved from complying with a key provision of a Stipulation and Agreement (Stipulation), into which MGE entered freely and knowingly, would not be in the public interest. In support of its recommendation Staff states:

1. On June 29, 2011 Missouri Gas Energy (MGE) filed in this case asking the Commission to grant MGE a waiver from one of the principal conditions contained in the Stipulation in Case No. GM-2003-0238.¹ In the GM-2003-0238 case, Southern Union, the parent company of MGE, applied to the Commission for permission to purchase Panhandle Eastern Pipeline Company (PEPL)
2. PEPL is an interstate natural gas transportation pipeline which provides storage and transportation to certain of MGE's service areas.
3. MGE and PEPL are affiliated entities under common ownership.

¹ The case was captioned *In the Matter of the Application of Southern Union Company d/b/a Missouri Gas Energy for Authority to Acquire Directly, or Indirectly, Up to and Including One Hundred Percent (100%) of the Equity Interests of Panhandle Eastern Pipeline Company including its Subsidiaries, and to Take All Other Actions Reasonably Necessary to Effectuate Said Transaction.*

4. Staff has approached this case from an accounting perspective, although the issues are also legal in nature. The Procurement Analysis Department has reviewed MGE's Purchased Gas Adjustment filings for the Company's compliance with the provisions of the GM-2003-0238 Stipulation and Agreement.

5. The condition from which MGE seeks a waiver is the requirement that the most or the highest rate MGE would charge its customers, for transportation and storage services provided by PEPL, would be the same percentage discounted rate MGE was paying PEPL at the time Southern Union purchased PEPL. This was referred to in the Stipulation as the "discount preservation mechanism." (See attached Appendix 2 to the Stipulation in GM-2003-0238.)

6. Staff participated in the negotiations leading to the Stipulation and Agreement and, in its Recommendation, Staff's provides its perspective from the point of view as a party to the negotiations and as well as the Staff which reviews MGE's PGA and ACA filings. Review of MGE's application of the provisions of the Stipulation to its ACA is part of Staff's audit.

7. That provision is that:

MGE agrees, for purposes of calculating its purchased 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 Appendix 2 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.

Stipulation, GM-2003-0238, Mar. 24, 2003, pp. 12-13.

8. In its Recommendation, which is attached to this pleading, Staff recommends against granting MGE's request for waiver or Variance.

WHEREFORE, Staff recommends the Commission deny MGE's request for waiver or variance from the "discount preservation mechanism" provision of the Stipulation as against the public interest.

Respectfully submitted,

/s/ Lera L. Shemwell

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Certificate of Service

I hereby certify that a true and correct copy of the foregoing was served, either electronically or by hand delivery or by First Class United States Mail, postage prepaid, on this 25th day of August 2011, on the parties of record as set out on the official Service List maintained by the Data Center of the Missouri Public Service Commission for this case.

/s/ Lera L. Shemwell

APPENDIX 2

It is understood that MOE currently has no discounts on the Southern Star Central System. It is also understood that this discount-preservation mechanism is intended to ensure that MOE's current discount percentage on Panhandle (** ** of the FERC maximum tariff rate for transportation and**_____**of the FERC maximum tariff rate for storage) is not exceeded, for purposes of calculating MOE's POA rates, as a result of subsequent negotiations between MOE and SUPC.

This stipulation and agreement does not represent any agreement between the parties regarding the reasonableness and prudence of the above level of discounts. This matter will be addressed in the related Actual Cost Adjustment (ACA) cases where these costs are requested to be recovered in rates.