

*Exhibit No.:*  
*Issues:* Pipeline Discounts; Gas Supply  
*Witness:* David M. Sommerer  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Rebuttal Testimony  
*Case No.:* GM-2003-0238  
*Date Testimony Prepared:* March 17, 2003

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**DAVID M. SOMMERER**

**SOUTHERN UNION COMPANY  
d/b/a MISSOURI GAS ENERGY**

**CASE NO. GM-2003-0238**

*Jefferson City, Missouri  
March 2003*

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

**NP**

**BEFORE THE PUBLIC SERVICE COMMISSION**

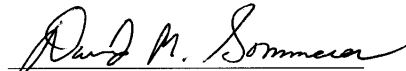
**OF THE STATE OF MISSOURI**

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 ) Case No. GM-2003-0238  
Eastern Pipeline Company, Including its )  
Subsidiaries, and to Take All Other Actions )  
Reasonably Necessary to Effectuate Said )  
Transaction. )

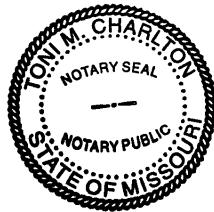
**AFFIDAVIT OF DAVID M. SOMMERER**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

David M. Sommerer, being of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the following Rebuttal 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.

  
David M. Sommerer

Subscribed and sworn to before me this 14<sup>th</sup> day of March 2003.





TONI M. CHARLTON  
NOTARY PUBLIC STATE OF MISSOURI  
COUNTY OF COLE  
My Commission Expires December 28, 2004

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**DAVID M. SOMMERER**  
**SOUTHERN UNION COMPANY**  
**d/b/a MISSOURI GAS ENERGY**  
**CASE NO. GM-2003-0238**

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**REBUTTAL TESTIMONY**  
**OF**  
**DAVID M. SOMMERER**  
**SOUTHERN UNION COMPANY**  
**d/b/a MISSOURI GAS ENERGY**  
**CASE NO. GM-2003-0238**

Q. Please state your name and business address.

A. David M. Sommerer, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am the Manager of the Procurement Analysis Department with the Missouri Public Service Commission.

Q. Please describe your educational background.

A. In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. I am currently a licensed CPA in Missouri. Upon graduation, I accepted employment with the Commission.

Q. What has been the nature of your duties while in the employ of the Commission?

A. From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the State of Missouri. In 1988 the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to

1 the Accounting Department. I assumed responsibility for planning and implementing these  
2 audits and trained available Staff on the requirements and conduct of the audits. I  
3 participated in most of the ACA audits from early 1988 to early 1990. On November 1,  
4 1990, I transferred to the Commission's Energy Department. Until November of 1993, my  
5 duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased  
6 Gas Adjustment reviews, and tariff reviews as part of a rate case. In November of 1993, I  
7 assumed my present duties of managing a newly created department called the Procurement  
8 Analysis Department. This Department was created to more fully address the emerging  
9 changes in the gas industry especially as they impacted the utilities' recovery of gas costs.  
10 My duties have included managing the five member staff, reviewing ACA audits and  
11 recommendations, participating in the gas integrated resource planning project, serving on  
12 the gas project team, serving on the natural gas commodity price task force, and participating  
13 in matters relating to natural gas service in the State of Missouri.

14 Q. Have you previously testified before this Commission?

15 A. Yes. A list of cases and issues in which I have filed testimony is included as  
16 Schedule 1 of my rebuttal testimony.

17 Q. Did you make an examination and analysis of the books and records of  
18 Missouri Gas Energy (MGE or Company) in regard to matters raised in this case?

19 A. Yes. I have examined these records in the context of the issues I am  
20 addressing in this case.

21 Q. What matters will you address in your testimony?

22 A. I am sponsoring the Staff's position regarding pipeline discounts and  
23 addressing changes in MGE's gas supply department.

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

3 A. I have been assigned and testified in many Purchased Gas Adjustment (PGA)  
4 and ACA proceedings. I have reviewed numerous ACA filings and have evaluated the  
5 purchasing practices of various Local Gas Distribution Companies (LDCs) in Missouri. I  
6 have also attended conferences and seminars related to the natural gas futures market and  
7 other natural gas issues.

8 Q. What is the purpose of your rebuttal testimony in this case?

9 A. I will provide support for the Staff's condition No. 6 regarding pipeline  
10 discounts and also discuss some concerns the Staff has regarding the impact this and other  
11 transactions have had on the gas supply area. Staff's conditions are attached as Schedule 2 to  
12 the testimony of Staff witness Charles R. Hyneman.

13 Q. What areas of this case have you reviewed?

14 A. In conjunction with Staff witness Carmen Morrissey, I have reviewed the  
15 effects this proposed transaction will have on MGE's gas supply function.

16 Q. What did you find as a result of your review?

17 A. During the course of the review, the Staff noted that MGE's gas supply  
18 department was in a state of flux. As a result of Southern Union's (SU) decision to form  
19 Energy Worx, a SU subsidiary, and sell its Texas properties, MGE's traditional gas supply  
20 department has been totally changed. This is further described in the next section.

**GAS SUPPLY DEPARTMENT**

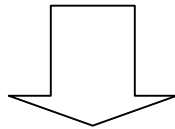
Q. Do you have concerns about the effect of this transaction on MGE's gas supply department?

A. Yes. Based upon discovery in this case, both from data requests and staff interviews of Company personnel, the Staff is concerned about the effects of this and other transactions on the gas procurement function at MGE. It has become evident that MGE's entire gas supply function has been reorganized, with all new employees taking over from long-time MGE/Southern Union gas supply and control personnel. The Gas procurement function is one of the most critical areas of MGE's obligation to serve. Over the course of the last twelve months, Southern Union (SU) has transferred its most senior gas supply expert to a subsidiary, Energy Worx. This former Southern Union employee's primary responsibility has changed from obtaining the best price for gas for SU's LDC's, including MGE, to \*\* HC \*\* that supplies 75% of MGE's gas. This conflict of interest is a legitimate concern for the Staff. In addition, MGE sold its Texas operations to ONEOK, resulting in the loss of other experienced gas supply personnel. These employees were so critical to MGE's gas supply operations, that MGE was unable to continue its gas supply function without their continued assistance. ONEOK, in fact, owns a competing LDC that should not have access to MGE's supply function. Despite this needed protection, ONEOK employees continue to participate in the operation of MGE's gas supply functions. Much of this transition, where new gas supply employees were being recruited and interviewed, was in the middle of this past winter where gas markets were once again in a state of turmoil. The absolute loss of such critical infrastructure could not have come at a worse time for the customer. The Staff is continuing





Interstate Pipeline  
Transportation and  
Storage Charges



Purchased Gas  
Adjustment Clause

Q. What is the Staff's concern about this relationship?

A. Southern Union would be in total control of Panhandle Eastern Pipeline Company and because of a management agreement, is in operational control of Southern Star Central (the historical Williams Pipeline Central). Clearly, it is in the interstate pipelines' interest to maximize its transportation and storage revenue. The LDC's interest should be to minimize the gas costs of its customers consistent with reliable service. These interests are in direct conflict with one another when the same Company controls both the interstate pipeline and the LDC.

Q. What is the Staff's proposed condition regarding this problem?

A. This is a very difficult conflict to resolve and is clearly a detriment related to this proposed sale. At a minimum, the Staff proposes that Southern Union be required to maintain the same percentage discounts that are currently in effect for Southern Star Central

1 and Panhandle Eastern Pipeline for all transportation and storage services under contract with  
2 MGE. This condition should apply both to the upfront PGA factor and ultimate ACA  
3 process. Also, nothing in this condition should be deemed to alter the prudence review  
4 applicable to these gas costs. Furthermore, it should also be made clear that MGE is still  
5 under an obligation to obtain the lowest costs possible, consistent with reliable gas  
6 purchasing practices. Staff will continue its prudence reviews to assure that MGE does  
7 obtain reasonable costs consistent with reliable service.

8 Q. Does this conclude your rebuttal testimony?

9 A. Yes.

## **LISTING OF CASES IN WHICH TESTIMONY WAS FILED**

### **DAVID M. SOMMERER**

<b>COMPANY</b>	<b>ISSUES</b>	<b>CASE NO.</b>
Missouri-American Water Co.	Payroll	WR-85-16
Great River Gas Company	Payroll, Working Capital	GR-85-136
Grand River Mutual Telephone	Cash Working Capital	TR-85-242
Associated Natural Gas Company	Revenues, Gas Cost	GR-86-86
Empire District Electric Company	Revenues	WR-86-151
Grand River Mutual Tel. Company	Plant, Revenues	TR-87-25
Great River Gas Company	Lease application	GM-87-65
KPL Gas Service Company	ACA gas costs	GR-89-48
KPL Gas Service Company	ACA gas costs	GR-90-16
KPL Gas Service Company	Service line replacement	GR-90-50
Associated Natural Gas Company	Payroll	GR-90-152
United Cities Gas Company	PGA tariff	GR-90-233
United Cities Gas Company	PGA tariff	GR-91-249
Laclede Gas Company	PGA tariff	GR-92-165
United Cities Gas Company	PGA tariff, billing adjustments	GR-93-47
Western Resources Inc.	PGA tariff, billing adjustments	GR-93-240
Union Electric Company	ACA gas costs	GR-93-106
Missouri Public Service	Cost of Gas	GA-95-216
Missouri Gas Energy	Incentive Plan	GO-94-318
Missouri Gas Energy	PGA Clause	GO-97-409
United Cities Gas Company	PGA Clause	GO-97-410
Missouri Gas Energy	ACA Gas Costs	GR-96-450
Missouri Gas Energy	Complaint Gas Costs	GC-98-335

<b>COMPANY</b>	<b>ISSUES</b>	<b>CASE NO.</b>
Laclede Gas Company	Price Stabilization	GO-98-484
Laclede Gas Company	PGA clause	GR-98-374
Laclede Gas Company	Complaint PGA	GC-99-121
Laclede Gas Company	Incentive Plan	GT-99-303
Laclede Gas Company	ACA Gas Cost	GR-98-297
Laclede Gas Company	Incentive plan	GT-2001-329
Laclede Gas Company	Price Stabilization	GO-2000-394
Laclede Gas Company	Inventory, Off-System sales	GR-2001-629
Laclede Gas Company	Inventory, Off-System sales	GR-2002-356
Laclede Gas Company	ACA Price Stabilization	GR-2001-387
Laclede Gas Company	Low-Income Program	GT-2003-0117
Missouri Gas Energy	ACA Hedging/Capacity Release	GR-2001-382