Exhibit No.:	
Issue:	*All Counts*
Witness:	*David J. Ries*
Sponsoring Party:	*Missouri Gas Company, LLC and Missouri Pipeline Company, LLC*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*GC-2006-0491*
Date Testimony Prepared:	*November 17, 2006*

MISSOURI GAS COMPANY, LLC
MISSOURI PIPELINE COMPANY, LLC

SURREBUTTAL TESTIMONY

OF

DAVID J. RIES

CASE NO. GC-2006-0491

HC denotes HIGHLY CONFIDENTIAL INFORMATION

November 17, 2006

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SURREBUTTAL TESTIMONY

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DAVID J. RIES

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CASE NO. GC-2006-0491

Q. Please state your name and business address and employer.

A. My name is David J. Ries. I am employed currently by R2 Development, Inc., my consulting company. I serve as President of Missouri Gas Company, LLC ("MGC"), Missouri Pipeline Company, LLC ("MPC") and Missouri Interstate Gas, LLC ("MIG"), whose offices are located at 110 Algana Ct., St. Peters, Missouri 63376.

Q. Are you the same David J. Ries who submitted rebuttal testimony in this proceeding?

A. Yes, I am.

<u>Executive Summary</u>

Q. Please provide an "executive summary" of your Surrebuttal Testimony in this case.

A. My Surrebuttal Testimony will address some of the specific issues raised in the Rebuttal Testimony of Union Electric Company witness James J. Massmann, Public Service Commission of the State of Missouri, Case No. GC-2006-0491, Rebuttal Testimony of James J. Massmann, Union Electric Company, d/b/a AmerenUE ("Massmann Rebuttal").

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I will show that the following three allegations asserted by Mr. Massmann either (1) lack foundation or are wrong, or (2) are inappropriate issues to raise in this proceeding:

1. Operating pressures experienced at the AmerenUE interconnections with MPC will not be able to support the gas demand in the next few years. Mr. Massmann expresses a concern over the viability of MPC to provide current and future service in the Wentzville area and to provide for reliable operation of the pipeline in the future;

2. There is a high purchase gas adjustment ("PGA") on AmerenUE's Rolla System due, in part, to transportation rates on MGC; and

3. The rate reductions to MPC and MGC ("MPC/MGC") affiliate Omega Pipeline Company ("Omega") alleged by Staff were not made available to AmerenUE.

Q. Please summarize your findings.

A. 1. The Massmann allegations concerning operating pressures and the viability and reliability of MPC (Allegation 1 above) are not related to this case. All these issues are more appropriately considered in the original complaint case (Case No. GC-2006-0378) or are matters to be negotiated in a transportation agreement between the parties.

2. The high PGA issue raised by Mr. Massmann (Allegation 2 above) is not part of the complaint in this case. The Missouri Public Service Commission ("Commission") should understand that the real problem here is that AmerenUE customers never supported the Maximum Daily Quantity ("MDQ") that was contracted for, resulting in a low utilization rate. To make matters worse, AmerenUE's efforts to grow the system show that they have not been successful. A second contributing factor to the high PGA is the stipulation and agreement accepted by the Commission in Case No. GM-2004-0244, which required AmerenUE's Rolla System customers to pay an

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incremental MGC PGA factor in addition to Panhandle Eastern Pipe Line Company's ("PEPL's") PGA costs.

3. Mr. Massmann's claim that rate reductions are due to AmerenUE based on rates charged to Omega (Allegation 3 above) is without foundation because Omega is paying the highest transportation rate on the system. Furthermore, many of the specific details about AmerenUE's rates and other terms of its transportation agreement with MPC/MGC, such as volumes contracted for, contract duration, and other terms are a private contractual matter and should not be an issue in this case.

Massmann Allegations

Allegation One: Operational issues

Q. What operational issues does AmerenUE witness Massmann raise in his Rebuttal Testimony?

A. Mr. Massmann simply expresses a concern for growing gas demand in the Wentzville area and states that:

> "Without significant improvement in pressure support from MPC, it will be necessary for AmerenUE to build significant transmission facilities back to PEPL." (Massmann Rebuttal at 4)

He also states that MPC relies upon PEPL for the operating pressure necessary to assure MPC delivery pressures to AmerenUE.

Q. How do you respond to this concern?

A. What AmerenUE and MPC both recognize is that MPC has substantial capability and capacity to increase pressure and volumes to AmerenUE, but it will require MPC to construct a compressor station near the PEPL receipt point. MPC has proposed to construct the necessary compressor station, but AmerenUE has, as of this date, failed

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to provide any incremental contracted capacity or other contract terms necessary to economically justify the capital cost of a compressor station. AmerenUE has also refused to avail itself of the capacity available from the Missouri Interstate Gas connection with MRT. It appears that Mr. Massmann is suggesting that this Commission order MPC to make the necessary physical "improvements" to its system (apparently subsidized by Respondents' other customers), so that AmerenUE will not have to contract for the additional capacity.

Q. Is it prudent for MPC to upgrade the pipeline system at this time?

A. No. MPC/MGC have for years operated these pipelines on revenues earned well below those revenues approved by this Commission (including under prior ownership). In GM 2001-0585, the case in which this Commission granted Gateway the right to buy MPC and MGC, Staff argued that Respondents' predecessors were under earning and that Respondents under Gateway's ownership would not be able to sustain those losses. MPC is willing to upgrade the pipeline system through the installation of compression. However, it would not be reasonable for MPC/MGC to expand its system with such a multi-million dollar enhancement without the commitment of shippers to pay for upgrades by way of volumes and contract duration. Equally important, it appears as if AmerenUE is inappropriately using this proceeding to influence the ongoing contract negotiations, which are a private matter.

Q. How do you respond to Mr. Massmann's concerns about fuel and other gas losses?

A. MGC's fuel retention percentage of 0.43% has been in effect since 1995. In fact, MPC has historically incurred greater fuel and gas loss amounts than it has recovered

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through its existing fuel retention percentage. Mr. Massmann implies that the fuel and other gas losses negatively impact reliability. This is incorrect and is completely unrelated to this proceeding. MPC/MGC have always operated its system in a safe and reliable manner. There have been no interruptions of firm transportation services. Thus, Mr. Massmann's stated concern is unfounded.

Q. Is it appropriate to consider these issues in this case?

A. No. These operational issues are not related to any of the counts raised by Staff in this proceeding. Equally important, these are contract-related issues that are considered in the transportation agreement. Hence, they are private contractual issues outside the scope of this case.

Allegation Two: High PGA

Q. What is the second type of allegation that Mr. Massmann makes in his Rebuttal Testimony?

A. According to Mr. Massmann, there is a high PGA rate on MGC, which creates an adverse impact on AmerenUE's Rolla System. (Massmann Rebuttal at 4). The AmerenUE Rolla System consists of the cities of Salem, Rolla, and Owensville.

Q. Was this allegation raised in the Complaint?

A. No. Consequently, the allegation is outside the scope of proper rebuttal testimony.

Q. Nevertheless, is there any merit to the allegation?

A. No. Christopher John, witness for MPC/MGC, explains in his Surrebuttal Testimony why the PGA is not the source of the problem. The problem with AmerenUE's PEPL PGA costs compared to others is twofold: (1) the low load factor utilization, and (2) the PGA mechanism imposed by the Commission.

Q. With regard to the first factor, the low load factor utilization of AmerenUE, please explain how a customer's load factor would be determined.

A. A customer's load factor is the ratio (expressed as a percentage) of the customers average daily throughput compared to the customer's peak day requirement. A firm customer's peak day requirement is based on its daily contract demand entitlement or the MDQ amount in dekatherms ("Dth") that the customer has reserved for service on the pipeline system.

Q. What factors can cause a low load factor?

A. A low load factor reflects a low utilization of the contracted capacity when comparing average daily volumes to contract demand levels. The contract demand levels for the Cities of Salem and Owensville were set with the original installation of the distribution systems. The contract demand levels were set at the minimum level required to support the MGC construction of the necessary pipelines totaling approximately 46 miles to these two cities. The contracted capacity was also structured to allow for a multi-year ramp up of contracted capacity. Without this commitment in volumes, the lines to Salem and Owensville would not have been constructed. AmerenUE now laments that the connection and conversion of existing fuel users by AmerenUE and its predecessors was apparently not sufficient to support the capacity under contract for these two cities.

Q. What is the rate impact of a customer having a low load factor?

A. A shipper, such as AmerenUE, pays a monthly reservation charge to the pipeline on its contracted for levels of firm service. The reservation charges are imposed whether the customer uses its entitlements or not. Consequently, if a shipper has a low load

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factor utilization of the system, the reservation charges flowed through the PGA will be spread over a smaller customer base, which would act to increase the PGA costs per customer. By converting new users from propane to natural gas, AmerenUE and its predecessors would increase the customer base over which the costs of transportation on any pipeline (interstate or intrastate) required to get needed gas supply to the city-gate. When the LDC owners (AmerenUE or its predecessors) for whatever reason, do not invest enough in expanding the distribution system to connect new customers to the LDC system, the inevitable result will be that the existing natural gas customers of these cities will continue to bear the burden of system costs because the LDC did not successfully grow the system.

Q. What are AmerenUE's load factors you referenced above?

A. AmerenUE has three firm transportation contracts on the MGC system. These contracts are to provide service to Rolla, Salem and Owensville. For 2005, AmerenUE's load factor for these cities was: **____** load factor for the Rolla transportation agreement, **____** for the Owensville transportation agreement, and **____** for the Salem transportation agreement.

Q. What is the reason for the low load factors under the Owensville and Salem transportation agreements?

A. The failure of AmerenUE and its predecessors to convert more end-users to natural gas from propane has led to the continued low load factors under the Owensville and Salem transportation agreements, therefore causing the MGC PGA to be higher than a PGA based on AmerenUE's more effective use of its reserved capacity on MGC. While recent high gas supply charges may have brought more attention to the PGA,

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the reason for this higher than desired PGA has always been impacted the most by the failure of the LDC (AmerenUE and its predecessors) to grow their system. The maximum tariff allowed under MGC has not changed in over a decade. Unfortunately, the miniscule growth in the customer base of the LDC, which would have reduced the PGA greatly, was not the result of anything MGC did. Rather, it is the result of what AmerenUE and its predecessors did not do over the last decade.

Q. What has MGC done to help the LDCs to grow their systems?

A. AmerenUE's LDCs at Rolla, Owensville and Salem have benefited from some of the largest discounts on the system for several years to encourage it to invest in infrastructure to convert customers from propane to natural gas. Now that the LDCs have failed miserably to grow their systems over the last 10 years, AmerenUE wants MGC to bear the economic risk for LDC's poor performance.

Q. Does AmerenUE have any basis to complain about paying the approved tariff rates?

A. No. AmerenUE has no justification to complain now that they must pay approved tariff rates simply because it failed to grow its LDC systems, despite having had some of the largest discounts on MGC for the last decade. Their complaints for special treatment should be ignored, just as AmerenUE would have ignored any request of MGC to increase charges before the contracted for discounts expired under their own contract terms. I doubt this Commission would have stepped into a private contract discussion to assist MGC to obtain higher rates from AmerenUE and likewise should refrain from interfering with private contract negotiations to assist AmerenUE in its negotiations with MGC.

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Q. What are the fundamental reasons for the high PGA?

A. Fundamentally, the Commission should understand that the real problem here is that AmerenUE's Rolla system has not grown or connected sufficient customers to support the MDQ that was contracted for, resulting in a low utilization rate. To make matters worse, AmerenUE's efforts to grow the system show that they (and their predecessor Aquila) have not been successful.

In his Surrebuttal Testimony, witness Christopher John explains that there is a second factor that determines a high PGA, namely, the stipulation and agreement accepted by the Commission (see appendices HH, II, and JJ of Christopher John Surrebuttal Testimony). This agreement requires AmerenUE's Rolla System customers to pay an incremental MGC PGA factor in addition to the PEPL's PGA costs.

Q. Why is this relevant to the current case?

A. In short, in Case No. GM-2004-0244 AmerenUE filed for a combined (MGC plus PEPL) PGA. However, Staff reviewed it and refused to accept a combined PGA. Ultimately, AmerenUE agreed to an incremental MGC PGA for the Rolla System, and the Commission approved. If there was a problem with the effect of having an incremental PGA for the Rolla System, Staff and the Commission had a chance to address it. The impact of the incremental PGA and the low load factor for these systems was well known by Staff and AmerenUE before the investigation of MPC/MGC ever started over a year ago. This Commission should understand that Staff knew the cause for the high Rolla System PGA and did not even bother to provide the Commission with a whole unbiased picture, because Staff was opposed to

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the simplest solution of a rolled-in PGA for AmerenUE. AmerenUE agreed to the incremental MGC PGA so they could complete the acquisition of the Rolla system which closed in 2004. AmerenUE should not be permitted in this docket to negotiate lower rates or lower contract volumes using the Staff as a shield, when the reasons for their high PGA relate to their own failure to grow their own systems.

Q. When AmerenUE purchased the distribution system from Aquila, didn't the reduced purchase price reflect the adverse impact of the high PGA?

A. Although the PGA is a passthrough, it doesn't prevent customers from reducing their purchases if they think that the delivered price of gas is too high. If AmerenUE expected a reduced sales volume due to the high price of delivered gas, it would have reduced its bid for the properties by an amount equal to the present value of the lost sales. It was acknowledged in the stipulation that Aquila took a financial write down on the sale of the Rolla System distribution assets. This write down has not been reflected in a distribution margin rate reduction for the Rolla System as AmerenUE was allowed to continue to charge the same distribution rates as Aquila had prior to the write down.

Q. Why is this a concern at this time?

A. Once again, it appears that AmerenUE is now attempting to have this Commission fix a problem that it knew about when it purchased the Rolla System from Aquila. AmerenUE continues to enjoy the same distribution margin even after Aquila took a write down. For AmerenUE to now express its primary concern as the high cost of its PGA is hollow and self-serving without acknowledging their own failure to utilize the contracted capacity. In fact, it appears that AmerenUE is attempting to double

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recover for the costs of the high PGA; first by negotiating a lower acquisition price for the distribution system and again by trying to have this Commission lower the cost of its contracted capacity on MPC/MGC.

Allegation Three: Discounts withheld from AmerenUE

Q. What is the third type of allegation that Mr. Massmann makes in his Rebuttal Testimony?

A. Mr. Massmann claims that the rate reductions to MPC/MGC former affiliate Omega alleged by Staff were not made available to AmerenUE. (Massmann Rebuttal at 5).

Q. Does Mr. Massmann take exception to your position in your Rebuttal Testimony (at 22) that Omega pays the maximum reservation rates on MPC and pays the highest rates on MGC?

A. No.

Q. Does Mr. Massmann dispute your conclusion in your Rebuttal Testimony (at 23) that MPC did not provide a discount to Omega, but charged its full rate?

A. No.

Q. Does Mr. Massmann dispute your evidence presented in the table of your Rebuttal Testimony (at 23) that Omega is paying the highest rate on MGC?

A. No.

Q. Does Mr. Massmann challenge MPC/MGC witness John's analysis in his Rebuttal Testimony (at 19) that disagrees with the Staff's position that MPC/MGC is charging affiliates lower rates than they charge non-affiliates?

A. No.

Q. What evidence does Mr. Massmann offer to support his claim?

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A. Mr. Massmann provides no support whatsoever. He completely relies on the allegations made by Staff (i.e., Mr. Schallenberg) that Omega may have been given a discounted rate. In Mr. Massmann's own words:

> "According to the allegations made by Staff in this case, MPC and *MGC **may have given*** its affiliate, Omega Pipeline Company (Omega), discounted rates …" (emphasis added) (Massmann Rebuttal at 5, lines 6-8)

Q. How could Staff find that Omega received greater discounted rates than other shippers from MPC/MGC when, in fact, the case was just the opposite?

A. Staff made two critical errors in its analysis of discounts. First, Staff totally misunderstands the difference in the contractual rights provided by agency agreements and by transportation agreements. As stated by Christopher John in his Surrebuttal Testimony, when the City of Cuba negotiated an agency agreement with Omega, for example, the pre-existing transportation agreement between Cuba and MGC did not make Cuba an affiliate of MGC. The transportation rate paid by Cuba is determined by its transportation agreement with MGC; it is totally unrelated to Omega. Yet, without any justification, Staff witness Schallenberg insists on attributing Cuba's transportation rate to Omega and considering it a discounted rate to an affiliate. This reasoning has no factual basis, especially in light of the common use of agents for LDCs in Missouri and elsewhere.

Second, despite our position that agency agreements cannot be compared to transportation agreements to determine whether discounts were provided, if such a comparison is to be made, it must be done correctly. Commission Staff failed to calculate the transportation charges in the agency agreements correctly.

Consequently, any rate comparisons based on the agency agreements are invalid and should not be given further consideration.

Q. Did Commission Staff compare agency agreements with transportation agreements?

A. Yes. Staff made an invalid comparison between (1) rates for service under transportation service agreements between MPC/MGC and the shipper, and (2) gas sales and agency agreements between Omega and Omega customers. Yet, the charges from these agency agreements include charges for gas supply and transportation charges on other pipelines *in addition to the charges for transportation provided by MPC/MGC* and can include a variety of other services from Omega to its customers. In contrast, the charges from these transportation agreements only reflect charges for transportation provided by MPC/MGC to the contracting shipper. Consequently, any comparison between these service agreements and these agency agreements would represent an "apples to oranges" comparison. Therefore, it is a meaningless comparison.

Q. Why is Staff's comparison of transportation agreements and agency agreements inappropriate?

A. As explained in greater detail in Mr. John's Surrebuttal Testimony, transportation agreements and the agency agreements are not comparable for two reasons. First, the transportation agreements are jurisdictional and subject to the provisions of the MPC/MGC tariffs, while the agency agreements have been treated as non-jurisdictional, non-regulated agreements and not subject to the requirements of the MPC/MGC tariff. Simply put, a contract between two unregulated entities does not

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become a regulated contract just because Staff wishes it so. To my knowledge, there is no precedent for what Mr. Schallenberg suggests. Second, the transportation agreements charge rates only for the transportation services whereas the agency agreements charge rates based on a bundled sales and transportation service.

Q. Does Mr. Massmann's claim about discounts depend on the validity of Staff's presumption about discounts to Omega?

A. Yes, it does. Mr. Massmann did not present any independent analysis of the discount issue and relies on the allegations of Staff that MPC/MGC *may have given* Omega a discounted transportation rate that is lower than the rate currently paid by non-affiliates. Mr. Massmann's conclusion about discounts is based entirely on the Direct Testimony of Missouri Public Service Commission Staff. (Massmann Rebuttal at 5).

Q. Did Mr. Massmann or any witness for AmerenUE, or Staff for that matter, calculate the amount of refunds due AmerenUE which Respondents can even respond to or rebut?

A. No. Mr. Massmann simply presents data on what AmerenUE paid and asks the Commission to determine the size of the over-charges. (Massmann Rebuttal at 7).

Q. **Does Mr. Massmann provide any reference to any Tariff provision of MPC/MGC which provides for a reduction or refund of charges to non-affiliates?**

A. No.

Q. Did Omega pay the highest rates on MPC/MGC?

A. Yes. As I explained in my Rebuttal Testimony and as established by the calculations of Mr. Chris John in his Rebuttal and Surrebuttal Testimony (Ries Rebuttal at 22-23;

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John Rebuttal at 22-27; and John Surrebuttal at 17-18, respectively), and as I have further explained above, Omega paid a rate equal to or greater than the rates paid by all other shippers on MPC. Omega paid the highest rates on MGC. Witness Christopher John analyzes these rate differentials between Omega and unaffiliated shippers in his Surrebuttal Testimony.

Conclusions

Q. What do you conclude from your review of the Massmann allegations?

A. 1. I find that Mr. Massmann's attempt to introduce operational issues into this case should be denied since these issues are more appropriately a contractual issue between MPC/MGC and AmerenUE. Any attempt by AmerenUE to have the Commission renegotiate transportation agreements or discount agreements on AmerenUE's behalf is inappropriate.

2. Mr. Massmann fails to acknowledge that it is the low utilization rate on MGC brought about by AmerenUE and its predecessors failure to grow the LDC systems over the last 10 years and the stipulation and agreement accepted by the Commission that produce a high price of delivered gas – not the PGA. Witness Christopher John explains these misconceptions more fully in his Surrebuttal Testimony.

3. Mr. Massmann's claim that MPC/MGC overcharged its non-affiliated shippers has no foundation because Omega paid the highest rates on MPC/MGC. Consequently, no refunds are due to MPC/MGC non-affiliated shippers.

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4. Both AmerenUE and Staff were well aware of the cause for the high PGA costs for the Rolla system before the investigation in this case ever began. The failure by AmerenUE to point out this fact to the Commission is more than a mere oversight. Since AmerenUE has now returned to the Commission in their current rate proceeding to correct this same problem, it seems AmerenUE "concerns" about MPC/MGC are intended to deflect attention away from the failures of AmerenUE and its predecessors to grow their LDC. Of course, AmerenUE would rather MGC bear the economic risk of AmerenUE's failures than to accept the reality of needing to grow their systems by investing in the necessary infrastructure that would lead to the hook up of new gas users, which, in turn, would drive their PGA down. This kind of "blame game" must not be rewarded.

Q. Do you have any other concerns?

A. Yes, on page three of Mr. Massmann's Rebuttal Testimony he expresses a concern about the financial viability of MPC and MGC. If AmerenUE was truly concerned about the financial viability of MPC/MGC, it would be more willing to acknowledge the true cause for the high PGA costs, and to provide the necessary contractual support necessary to allow MPC/MGC to expand the services that AmerenUE requires.

Q. Does that conclude your Surrebuttal Testimony in this proceeding?

A. Yes, it does.

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BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

Staff of the Missouri Public Service Commission Complainant, v. Missouri Pipeline Company, LLC and Missouri Gas Company, LLC Respondents.	)))))))))	Case No. GC-2006-0491

AFFIDAVIT OF DAVID J. RIES

STATE OF COLORADO COUNTY OF JEFFERSON	)))	ss.

David J. Ries, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 16 pages of testimony to be presented in the above case; that the answers in the foregoing Surrebuttal 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 J. Ries

Subscribed and sworn to before me this 16th day of November, 2006.

Notary Public

My Commission expires: June 27, 2010

SANDRA L GOANS
Notary Public
State of Colorado