

EXHIBIT NO. \_\_\_\_\_  
ISSUE: VOLUMES AND CITY GATES  
WITNESS: RICHARD C. KREUL  
TYPE OF EXHIBIT: REBUTTAL TESTIMONY  
SPONSORING PARTY: MISSOURI PIPELINE COMPANY  
CASE NO. GR-92-314

MISSOURI PIPELINE COMPANY

REBUTTAL TESTIMONY

OF

RICHARD C. KREUL

RECEIVED  
JAN 19 1993

ACCOUNTING DEPT.  
PUBLIC SERVICE COMMISSION

January 15, 1993

FILED  
JAN 15 1993  
MISSOURI  
PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the matter of Missouri )  
Pipeline Company for authority )  
to file tariffs increasing ) Case No. GR-92-314  
rates for gas transportation )  
service to customers within its )  
service area. )

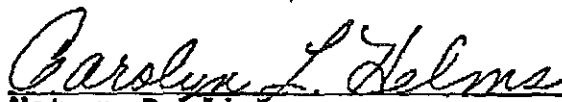
AFFIDAVIT

STATE OF OKLAHOMA )  
 ) SS  
COUNTY OF TULSA )

COMES NOW Richard C. Kreul, having been duly sworn, upon his oath states that he has caused to be prepared the attached written testimony in question answer form to be presented in the above-captioned proceeding; that the answers and information contained therein are true and correct to the best of his knowledge, information and belief.

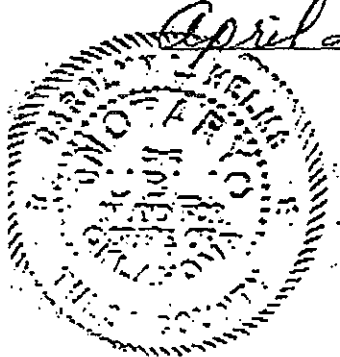
  
Richard C. Kreul

Subscribed and sworn to before me this 14<sup>th</sup> day of January, 1993.

  
Notary Public

My Commission Expires:

April 20, 1996



1                   BEFORE THE PUBLIC SERVICE COMMISSION  
2                   OF THE STATE OF MISSOURI  
3                   REBUTTAL TESTIMONY OF RICK C. KREUL  
4                   CASE NO.   GR-92-314  
5  
6

7    Q.    Please state your name and business address.

8    A.    My name is Richard C. Kreul and my business address is 400  
9           Oneok Plaza, 100 West Fifth Street, Tulsa, Oklahoma 74103.

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

11   A.    I am presently employed by Missouri Pipeline Company ("MPC"  
12           or "Company") as President of the Company.

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

14   A.    I will address several of the comments made by witnesses for  
15           the Fidelity Natural Gas Company ("Fidelity") relating to  
16           City Gates and the Staff's proposed zone rates.

17   Q.    Have you reviewed the direct testimony of Mr. Ken Matzdorff  
18           and Mr. John C. Dunn of Fidelity Natural Gas Company?

19   A.    Yes I have.

20   Q.    Do you agree with Mr. Matzdorff's statement at Page 5, Lines  
21           14 through 15 of his direct testimony that Fidelity is not a  
22           typical, well established natural gas distributor like most  
23           LDCs in Missouri?

24   A.    No, not completely. Fidelity is very similar to Laclede Gas  
25           Company's ("Laclede") subsidiary Missouri Natural Gas

1 ("MONAT"). Like MONAT, Fidelity has been granted the right  
2 to serve as an LDC in a city where natural gas previously had  
3 not been available. Like MONAT, Fidelity must compete with  
4 propane as a source of energy within the city. Like MONAT, a  
5 new delivery system must be constructed and operated. Thus,  
6 Fidelity is very much like Laclede's subsidiary in the  
7 Franklin County area.

8 Q. Do you agree with Mr. Ken Matzdorff's statement at Page 6,  
9 Lines 6 and 7 of his direct testimony that MPC is Fidelity's  
10 only pipeline supplier?

11 A. No. MPC is only the last link in a series of pipelines that  
12 provide natural gas transportation to Franklin County,  
13 Missouri. For example, Fidelity has almost certainly  
14 arranged and paid for transportation on Panhandle Eastern  
15 Pipeline Company ("PEPL"). The following chart shows that  
16 MPC's current rates are 33% of PEPL charges for firm  
17 transportation to Fidelity and presently comprise only 25% of  
18 Fidelity's transportation cost:

	Cost Per MMBTU	Ratio
21 PEPL Transportation Charges	\$1.41	75%
22 MPC Transportation Charges	\$0.47	25%
23 Total	\$1.88	

24 As this chart clearly shows, PEPL transportation charges are  
25 much more significant than the rates charged by MPC.

1 Q. What are the sources of the transportation charges you are  
2 citing?

3 A. The PEPL transportation charge is taken from PEPL's current  
4 tariff on file with the Federal Energy Regulatory Commission  
5 ("FERC") using a 25% load factor. MPC's transportation  
6 charge is taken from MPC's tariff currently on file with the  
7 Missouri Public Service Commission ("MPSC" or "Commission")  
8 using a 25% load factor.

9 Q. Do you agree with Mr. Matzdorff's statement at Page 7, Lines  
10 4 through 7 of his direct testimony that the rates approved  
11 by this Commission in GA-90-280 are appropriate for MPC?

12 A. No, I do not. The MPC rates Mr. Matzdorff proposes as being  
13 appropriate were authorized over 3 years ago in MPC's  
14 original certification case, GA-89-126. These rates were  
15 granted by this Commission specifically conditioned upon MPC  
16 filing a rate case within two years after the pipeline became  
17 operational. This future filing was ordered by this  
18 Commission to allow all interested parties to incorporate the  
19 actual, historical operating data and current facts about  
20 MPC's operation into the rate determination process. Mr.  
21 Matzdorff's suggestion that the rates be maintained at their  
22 present levels is completely unfair, absolutely unreasonable  
23 and contrary to the Commission order in Case No. GA-89-126.  
24 Fidelity would not even exist if MPC had not extended its  
25 pipeline into Franklin County at a cost in excess of

1       \$23,000,000. The cost of this extension was not even  
2       contemplated when MPC's current rates were adopted in  
3       GA-89-126. Everyone, including Fidelity, knew or should have  
4       known of the Commission's true-up requirement in the present  
5       case. At Page 7 of the Commission's order granting MPC its  
6       original certificate, the Commission stated, in pertinent  
7       part, as follows:

8               In order to evaluate the reasonableness of  
9               tariffs proposed by the Applicant, the  
10              Commission must review the evidence supporting  
11              them. However, because this is a start-up  
12              service, there is no historical data by which  
13              the Commission can judge the reasonableness of  
14              Applicant's proposed tariffs. Moreover,  
15              Missouri has no other intrastate natural gas  
16              transportation companies by which the  
17              Commission can make a comparison. Market  
18              performance is the best indicator for rates  
19              and other terms of service... The Commission  
20              has determined that Applicant should file a  
21              rate case within two years from the date the  
22              pipeline goes in service. This will allow  
23              sufficient time for market penetration data to  
24              be collected.

25       To keep the expenditures to build the pipeline to Fidelity  
26       out of the rates to be determined in this case would be  
27       ludicrous, if not draconian.

28       Q. Do you agree with Mr. Matzdorff's statement at Page 7, Line  
29       21 of his direct testimony that it is inappropriate for MPC  
30       to increase its rates at this time?

31       A. No. The Commission ordered MPC to file this rate case when it  
32       received its original certificate; this case does not

1        constitute an "optional" filing by MPC. It was understood  
2        that this filing would enable all parties to incorporate  
3        MPC's historical operating data and the current facts about  
4        MPC into the determination of MPC rates. Essentially, all  
5        parties except Fidelity have attempted to do that during this  
6        process. It would be unreasonable and unfair not to allow  
7        MPC to adjust its rates, based upon the additional MPC  
8        pipeline investment (the Franklin County extension) not taken  
9        into account at the time the current MPC rates were  
10       established in GA-89-126.

11    Q.    Do you have an opinion on Dr. Proctor's proposal that two  
12       zones and rates be applied on MPC's pipeline?

13    A.    Yes. MPC does not oppose Dr. Proctor's zone rate design.

14    Q.    Have you calculated the impact upon Fidelity of the zone  
15       rates attached to the Hearing Memorandum expected to be filed  
16       in this matter?

17    A.    Yes, I have. If the Commission authorized MPC to charge the  
18       zone rates attached to the Hearing Memorandum versus the rate  
19       identified as "Total" on Attachment A to the Hearing  
20       Memorandum, the difference between the Zone 2 rate and the  
21       Total rate would be equivalent to a \$.005 per gallon change  
22       in the price of propane. If a \$.005 change in the price of  
23       propane per gallon can place all of Fidelity's investment in  
24       distribution facilities in jeopardy, as alleged by Mr.  
25       Matzdorff at Page 7, Lines 15-18 of his direct testimony,

1       then perhaps the information provided by Fidelity in its  
2       certificate case should be reviewed again to determine its  
3       accuracy and reasonableness. The increase in zone rates  
4       proposed by the Staff are just not that significant to  
5       Fidelity.

6       Q. Do you agree with Mr. Matzdorff's statement at Page 10, Lines  
7       10 and 11 of his direct testimony that all city gate  
8       facilities be eliminated from the MPC rate base?

9       A. No. City gate facilities that have been paid for by various  
10       customers of MPC were not included in the MPC rate base.  
11       However, the investment made by MPC in city gate delivery  
12       points for Laclede should be included in MPC's rate base.  
13       This city gate investment is used to provide service to not  
14       only Laclede, but to other customers behind Laclede, and  
15       without Laclede's significant long term commitment to become  
16       a customer of MPC, the Franklin County extension (which  
17       enables Fidelity to exist) would not have been constructed.  
18       The potential costs of Laclede's interconnection borne by  
19       customers other than Laclede are insignificant, when compared  
20       to the cost benefits brought to the other customers by  
21       Laclede. For example, Laclede's annual load factor coupled  
22       with potential industrial sales equates to approximately a  
23       70% load factor into the St. Louis market. This is  
24       approximately three times the annual load factor projected  
25       for Fidelity (25%). Laclede's high load factor enables MPC

1 to charge lower rates to all of its other customers,  
2 including Fidelity, than would be the case without Laclede's  
3 higher than average load factor.

4 Q. Do you agree with Mr. Matzdorff's characterization found at  
5 Page 8, Line 25 of his direct testimony that MPC "required"  
6 Fidelity to make payment for city gate facilities?

7 A. No, I do not. Mr. Matzdorff has mischaracterized the entire  
8 city gate negotiation process between MPC and Fidelity. MPC  
9 offered Fidelity the same basic proposal MPC had offered, and  
10 which was agreed to by, Laclede: MPC offered to construct  
11 Fidelity's city gate at MPC's cost and expense if Fidelity  
12 would enter into a contract reserving a certain level of firm  
13 pipeline capacity. After an analysis of the cost and expense  
14 to construct the city gate, MPC management determined that a  
15 transaction with Fidelity would make economic sense, and thus  
16 be prudent, if Fidelity would enter into a firm  
17 transportation contract for 5,000 MMBTU/day. Fidelity's  
18 response to the MPC proposal was to offer to enter into a  
19 contract for 50 MMBTU/day of firm capacity. This level of  
20 reservation by Fidelity would have equaled a monthly revenue  
21 stream to MPC of \$123.50. MPC decided that acceptance of  
22 such a counter proposal from Fidelity would be imprudent and  
23 MPC rejected Fidelity's counter proposal. Fidelity then  
24 chose to pay for its city gate and reserve firm pipeline  
25 capacity of 300 MMBTU/day. In essence, if Fidelity had

1 committed to enough pipeline capacity so that the economics  
2 of the sitation would have justified the city gate, MPC  
3 would have constructed and paid for the Fidelity city gate as  
4 it had done for Laclede. However, Fidelity was not willing  
5 to make the required capacity commitment and Fidelity elected  
6 to directly pay for the cost of its city gate.

7 Q. Do you agree with Mr. Matzdorff's statement on Page 9, Lines  
8 11-15 of his direct testimony that the customers will be  
9 required to pay twice for the cost associated with the  
10 Fidelity city gate facilities?

11 A. No, I do not. The costs of Fidelity's city gate are not  
12 included in MPC's rate base. Thus, the cost of Fidelity's  
13 city gate facilities will only be recovered once - through  
14 Fidelity's retail rates.

15 Q. How does the cost of the Fidelity city gate compare to the  
16 cost of the remainder of its distribution system?

17 A. The cost of the Fidelity city gate is approximately \$150,000.  
18 This represents less than 4% of the total cost of Fidelity's  
19 system. It is highly unlikely that a 4% increase in  
20 distribution investment cost alone would make Fidelity's  
21 project noncompetitive with existing sources of energy.

22 Q. Do you agree with Mr. Dunn's statement at Page 7, Lines 12  
23 through 16 of his direct testimony, that approximately  
24 \$50,000 of the Fidelity city gate cost was due to overhead  
25 costs transferred from MPC related entities?

A. No. Mr. Dunn's client, Fidelity, has been supplied the detail of the cost of its city gate. This cost does not include \$50,000 of costs billed to MPC from its affiliated entities. The cost breakdown is as follows:

<u>Account</u>	<u>Description</u>	<u>Cost</u>
150.010	Right of Way	\$ 750
150.020	Acquisition/Options	750
150.030	Survey/Clearing	750
150.060	Meters	5,525
150.070	Valves & Fittings	36,507
150.090	Measurement/Equip Ex Meters	2,589
150.100	X-Ray/NDT/Hydrotest/Safety	2,244
150.110	Paint/Line Mark/Signs/Weeds	1,000
150.120	Fence/Buildings	1,875
150.130	DEHY/Trims/Pulsation/Tanks	53,535
150.140	Cathod Protection	1,000
150.160	Inspection/Line Patrol	2,000
150.180	Prel Eng & Dev	1,000
150.190	Engineering	1,000
150.220	Misc Materials/Fuel/Tools	8,512
150.230	Misc Services/Freight/Radio	522
150.250	Equip Calibration	1,500
150.254	SCADA	6,330
150.255	Instrumentation	8,253
150.256	Electrical	16,442
150.260	Capitalized Salaries	6,000
150.280	Employee Travel/Living	<u>1,569</u>
		\$159,653

Q. Do you agree with Mr. Dunn's contention at Page 9, Line 18 through 24 of his direct testimony that the entire MPC rate filing be deferred until some future date?

A. Absolutely not. Mr. Dunn's recommendation is totally unwarranted and not supported by the facts. Mr. Dunn has performed no in-depth analysis of the MPC filing and has

1 submitted no evidence that indicates the investment in  
2 pipeline facilities, level of operating costs or proposed  
3 throughput levels are not fixed, known and measurable.  
4 Moreover, this recommendation would be contrary to this  
5 Commission's prior Order and mandate requiring MPC to file  
6 the present case.

7 Q. Do you agree with Mr. Dunn's statement at Page 11, Line 7 of  
8 his direct testimony that MPC's requirement that Fidelity's  
9 purchase its city gate was an exercise of monopoly power?

10 A. No. As I stated earlier, MPC offered to pay for the  
11 installation of the Fidelity city gate in return for  
12 Fidelity's agreement to a larger capacity contract (5,000  
13 MMBTU/day). In other words, the MPC decision not to pay for  
14 the Fidelity city gate was based on a prudent economic  
15 decision. Likewise, the agreement to pay for the Laclede  
16 city gates was based on the magnitude of the transportation  
17 commitment made on behalf of Laclede of 55,000 MMBTU/day.

18 Q. Do you agree with Mr. Dunn's characterization of the  
19 negotiations between MPC and Fidelity's city gate facilities  
20 described at Page 11, Lines 21-26 and Page 12, Lines 1-27 of  
21 his direct testimony?

22 A. No, I do not. MPC did not demand that Fidelity do anything.  
23 As I previously stated, MPC offered to pay for the  
24 installation of Fidelity's city gate facilities if Fidelity  
25 would agree to a firm capacity contract which would make it

1 economically justifiable and prudent for MPC to enter into  
2 the contract and pay for the Fidelity city gate. The  
3 Commission did not influence MPC's decision at all during  
4 these negotiations, as MPC was completely unaware that  
5 Fidelity had gone to the Commission's Staff with its  
6 objection and had not been afforded an opportunity to  
7 respond. The negotiations with Fidelity were based strictly  
8 upon prudent economic factors.

9 Q. Does this conclude your rebuttal testimony?

10 A. Yes, it does.  
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