

Exhibit No.	
Issue:	Gas Transportation
Witness:	Richard Haubensak
Sponsoring Party:	Constellation NewEnergy- Gas Division, LLC
Type of Exhibit:	Direct Testimony
Case No.:	GR-2009-0355
Date Testimony Prepared:	September 3, 2009

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

**CASE NO. GR-2009-0355  
MISSOURI GAS ENERGY**

**DIRECT TESTIMONY**

**OF**

**RICHARD HAUBENSAK**

**ON BEHALF OF CONSTELLATION NEWENERGY-GAS DIVISON, LLC**

**September 3, 2009**

**DIRECT TESTIMONY  
OF  
RICHARD HAUBENSAK**

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1           **I.       QUALIFICATIONS AND PURPOSE OF TESTIMONY**

2   **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3   A.     My name is Richard Haubensak. My business address is 12120 Port Grace  
4           Boulevard, Suite 200, LaVista, Nebraska, 68128.

5   **Q.     BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6   A.     I am a self-employed consultant.

7   **Q.     PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8   A.     I have a Bachelor of Science in Business Administration with a major in  
9           accounting from Midland College in Fremont, Nebraska. I have a Masters of  
10          Business Administration degree from the University of Nebraska at Omaha. I  
11          started my career in the natural gas industry with Northern Natural Gas in  
12          1965. Since 1981 to the present I have worked in the area of natural gas  
13          regulation. For six years I was a member of the American Gas Association's  
14          Rate and Strategic Planning Committee. I was Vice President of Natural Gas  
15          Regulation for Aquila Energy until I retired from that firm in 2001. Since 2001  
16          I have worked as an independent consultant in the natural gas industry.  
17          During my career I have testified or managed rate case applications in  
18          Colorado, Florida, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska,  
19          West Virginia, and the Texas Railroad Commission.

1   **Q.    FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

2   A.    I am testifying in this case on behalf of Intervenor, Constellation NewEnergy-  
3       Gas Division, LLC (“Constellation”). Constellation is a major marketer of  
4       natural gas on the Missouri Gas Energy (“MGE”) distribution system.

5   **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6   A.    I have reviewed the proposed MGE tariffs in this case with an eye toward  
7       ensuring they do not create unreasonable barriers to customers wanting to  
8       receive transportation service from an alternate provider, a gas marketer such  
9       as Constellation.

10  **Q.    WHAT IS GAS TRANSPORTATION?**

11  A.    Transportation is an arrangement in which the customer purchases their  
12       natural gas supply directly from a producer, or through a marketer, rather than  
13       receiving sales service from the utility. Sales service includes both the cost of  
14       the natural gas supply and the utility’s charge for providing the utility service.  
15       In both transportation and sales service, the utility’s local distribution system  
16       is the conduit for bringing the natural gas to the customer.

17  **Q.    WHAT IS YOUR OPINION OF THE TRANSPORTATION TARIFFS AS**  
18  **PROPOSED BY MGE IN THIS CASE?**

19  A.    I have two issues with the proposed tariffs. First, MGE continues to limit  
20       transportation service only to those customers “the Company expects will  
21       exceed 15,000 Ccf in any one month of a 12-month billing period.” In addition,  
22       MGE requires balancing and cash-out rules that I believe are unnecessary  
23       and are detrimental to customers wanting to receive transportation service.

1   **Q.   WHAT DOES CONSTELLATION REQUEST REGARDING MGE’S TARIFF**  
2       **REVISIONS?**

3   A.   Constellation requests MGE’s threshold be changed to allow transportation to  
4       non-residential gas customers with annual usage of 30,000 Ccf per year. In  
5       addition, Constellation requests that MGE’s requirement for balancing be  
6       modified, and that monthly imbalances be carried over where allowed by the  
7       applicable interstate pipeline.

8   **II.   THE THRESHOLD FOR ELIGIBILITY FOR TRANSPORTATION**  
9   **Q.   DOES CONSTELLATION HAVE REASON TO BELIEVE SMALLER CUSTOMERS**  
10   **IN MGE’S SERVICE AREA DESIRE A TRANSPORTATION SERVICE?**

11   A.   Yes, Constellation provides transportation service to commercial and  
12       industrial customers across the nation. In virtually all jurisdictions where  
13       Constellation serves, Constellation provides these transportation services to  
14       small commercial and industrial customers. It is reasonable to believe that  
15       the demand in these other jurisdictions is also present in MGE’s Missouri  
16       service territory.

17   **Q.   DOES CONSTELLATION PROVIDE TRANSPORTATION SERVICE TO**  
18       **RESIDENTIAL CUSTOMERS?**

19   A.   No, it does not. Constellation’s policy is that the residential market is best-  
20       served by the utility in the form of traditional sales service, and I agree.

1   **Q.    WHAT ELGIBILITY THRESHOLD FOR TRANSPORTATION SERVICE DO YOU**  
2   **PROPOSE IN THIS CASE?**

3   A.    If MGE were ordered to open their system to additional transportation  
4   customers, I believe an appropriate initial threshold would be the minimum  
5   level of 30,000 Ccf per year currently in place on the Kansas Gas Service  
6   system. That system is just across the river from MGE's service territory in  
7   the Kansas City area. A number of commercial enterprises in the Kansas City  
8   area that have establishments on both sides of the state line already avail  
9   themselves of transportation service from the Kansas Gas Service, but do not  
10   qualify for transportation from MGE because of the substantially higher  
11   threshold in place on the Missouri side of the river. This change would mean  
12   that customers in MGE's proposed Large General Service (LGS) class would  
13   be eligible for transportation service if they had annual usage of 30,000 Ccf  
14   per year.

15   **Q.    SO YOU ARE NOT PROPOSING THAT ADDITIONAL CUSTOMERS BE PLACED**  
16   **IN MGE'S LARGE VOLUME SERVICE (LVS) CLASS?**

17   A.    That is correct. The terms for being in the Large Volume Service (LVS) class  
18   would remain the same as proposed by MGE. I am simply proposing that the  
19   threshold for transportation be lowered so that higher-volume customers in  
20   the Large General Service (LGS) class can qualify. This is consistent with  
21   how MGE handles customers choosing their School Transportation Program.  
22   The Customer Charge and the Commodity Charge for that service are based  
23   on the class of service the customer would otherwise qualify for.

1 **Q. WHAT ELGIBILITY THRESHOLDS FOR TRANSPORTATION SERVICE DO**  
2 **OTHER GAS UTILITIES EMPLOY?**

3 A. The threshold for transportation varies from one utility to another. For  
4 example, on the Ameren-UE system, transportation service is available to all  
5 non-residential customers regardless of annual volumes. The threshold on  
6 the Empire District system is only 5,000 Ccf per year. As I said earlier, on the  
7 Kansas Gas Service system, which serves the Kansas side of the Kansas  
8 City area, the threshold is 30,000 Ccf per year. Other Kansas gas utilities,  
9 including Atmos and Black Hills, have even lower thresholds for transportation  
10 eligibility. In 2007, the Iowa Utilities Board ordered that Iowa utilities open up  
11 their systems to all non-residential customers desiring transportation service.  
12 In Nebraska, the two major gas utilities, Black Hills and Source Gas, offer  
13 transportation service to all commercial and industrial customers, regardless  
14 of size. Attached to this testimony are the applicable tariff pages for the  
15 utilities identified above. (Schedule RJH 1) Also attached is the order of the  
16 Iowa Utilities Board opening up transportation to all non-residential small  
17 volume customers. (Schedule RJH 2)

18  
19 In Iowa, as in Missouri, transportation to smaller customers was first  
20 opened up to schools. Then governmental entities were added to the  
21 eligibility for transportation. Transportation to residential customers was  
22 considered, but determined not to be a viable option. In its 2007 Order, the  
23 Iowa Board said that, "small volume transportation service for some

1 MidAmerican and IPL customers is desired and will be utilized by those  
2 customers who find that the service provides a benefit to them.” (Schedule  
3 RJH 2, at page 11.) The Iowa gas utilities were directed to file permanent,  
4 small volume transportation service tariffs

5 **Q. DOES CONSTELLATION NEWENERGY PRESENTLY PROVIDE**  
6 **TRANSPORATATION SERVICE TO SMALLER CUSTOMERS ON THE SYSTEMS**  
7 **YOU HAVE JUST MENTIONED?**

8 A. Yes, other than the Ameren-UE service territory. Constellation NewEnergy  
9 provides transportation service to smaller customers in Kansas, Iowa and  
10 Nebraska. In Empire District Gas Company’s Missouri service territory,  
11 Constellation provides transportation service to smaller commercial  
12 customers than it is allowed to serve in MGE’s service territory. Constellation  
13 does not serve at present in eastern Missouri, in the Ameren-UE territory.

14 **Q. DOES CONSTELLATION PROVIDE TRANSPORTATION TO CUSTOMERS IN**  
15 **EACH OF THE KANSAS AND NEBRASKA UTILITIES MENTIONED ABOVE?**

16 A. Yes, they do. Constellation also provides transportation service on all three  
17 major utilities in Iowa – Alliant, Black Hills and MidAmerican.

18 **Q. HOW LONG HAS MGE’S ELIGIBILITY THRESHOLD FOR TRANSPORTATION**  
19 **SERVICE BEEN AT ITS CURRENT LEVEL?**

20 A. MGE’s existing threshold of 15,000 Ccf in any one month of a 12-month  
21 billing period has not changed since MGE acquired the property from Western  
22 Resources in 1994.

1   **Q.   WHAT CAN A GAS MARKETER SUCH AS CONSTELLATION OFFER TO**  
2       **CUSTOMERS THAT MGE DOES NOT?**

3   A.   Sometimes a gas marketer such as Constellation can offer a lower price for  
4       the natural gas commodity it purchases for delivery to a transportation  
5       customer. More importantly, a marketer can offer end-users price protection  
6       so that a price can be locked in for an extended period of time. While MGE  
7       changes its gas commodity costs to customers on a quarterly basis, through  
8       the Purchased Gas Adjustment (PGA), Constellation may offer its  
9       transportation customers a fixed price that they can depend on for up to 24  
10      months. In addition, Constellation provides a pre-packaged, diversified  
11      portfolio consisting of a strategic blend of fixed price, call options, and index-  
12      priced gas. The objective of this offering is to reduce exposure to high prices  
13      while still allowing the customer to benefit in a falling market. Lowering the  
14      eligibility threshold for transportation would allow non-profit organizations, like  
15      schools, the opportunity to lock in a price, which greatly assists them in  
16      budgeting for the future. These options would also be a benefit to other small-  
17      volume customers, such as motels, restaurants, laundromats, apartment  
18      complexes, colleges, etc. to be able to lock in a gas price for an extended  
19      period of time.

1   **Q.    ARE THERE ANY BARRIERS THAT SOMETIMES KEEP SMALL-VOLUME**  
2       **CUSTOMERS FROM CHOOSING TRANSPORTATION?**

3   A.    Yes, there could be if unnecessary incremental costs to choose the  
4       transportation alternative are imposed, or if requirements such as installation  
5       of telemetry equipment are required. There should be minimal incremental  
6       costs, if any, for customers to choose the transportation alternative, and there  
7       should not be a requirement that telemetry equipment be installed.

8   **Q.    WHAT IS TELEMETRY EQUIPMENT?**

9   A.    Telemetry equipment, sometimes referred to as electronic flow measurement  
10       equipment or electronic gas measurement devices, is equipment that  
11       measures the volume of gas taken daily (and sometimes hourly) by the  
12       customer. This equipment is certainly necessary for measuring the volume  
13       of gas taken by large-volume industrial customers. However, for small-  
14       volume customers, where the load is very predictable, this equipment is not  
15       necessary. Also, the cost of the equipment, which usually is paid for by the  
16       customer becomes a deterrent to a customer choosing a transportation  
17       service.

18   **Q.    CAN YOU IDENTIFY ANY JURISDICTIONS WHERE TELEMETRY EQUIPMENT**  
19       **IS NOT REQUIRED TO RECEIVE SMALL-VOLUME TRANSPORTATION**  
20       **SERVICE?**

21   A.    Yes, I can. First of all, utilities in Missouri do not require the installation of  
22       telemetry equipment for customers on the school program. In addition,

1 telemetry equipment is not presently required on the Empire District system  
2 for small-volume transportation customers. In Iowa and Nebraska, none of  
3 the utilities require installation of telemetry equipment in order to receive  
4 small-volume transportation service. This is also true for the Kansas Gas  
5 Service customers across the river from the MGE service territory.

6 **Q. DOES IT MAKE SENSE THAT SMALL-VOLUME CUSTOMERS IN MISSOURI**  
7 **WITH SIMILAR LOAD CHARACTERISTICS TO THE SCHOOLS BE REQUIRED**  
8 **TO HAVE TELEMETRY EQUIPMENT INSTALLED TO RECEIVE**  
9 **TRANSPORTATION SERVICE, WHILE THE SCHOOLS DO NOT HAVE THIS**  
10 **REQUIREMENT?**

11 A. I do not believe so. The requirements to provide transportation service to  
12 non-school customers should be the same as the requirements to serve the  
13 school customers. The Iowa Utilities Board, in its 2007 order opening up  
14 transportation service, eliminated any requirement for telemetry equipment for  
15 small-volume non-school customers just as they previously had not required  
16 telemetry equipment for the schools.

17 **Q. ARE YOU AWARE OF SMALL-VOLUME CUSTOMERS ON THE MGE SYSTEM**  
18 **THAT WOULD LIKE TO HAVE A TRANSPORTATION OPTION?**

19 A. Yes, I am. Attached to my testimony are letters from a number of MGE  
20 customers which are not currently eligible for transportation service that would  
21 like to have a transportation option. (Schedule RJH 3) I believe additional

1 MGE customers have sent similar letters to the Commission in reference to  
2 this case, also supporting lowering the transportation eligibility threshold.

3 **Q. IF MGE WERE TO OPEN UP TRANSPORTATION SERVICE TO MORE**  
4 **CUSTOMERS, WOULD THAT NEGATIVELY IMPACT CUSTOMERS CHOOSING**  
5 **TO STAY ON SALES SERVICE?**

6 A. No, it would not, if done properly. The tariffs of the other utilities I've identified  
7 above have provisions for balancing, and cash-outs and incremental fees to  
8 cover the cost of providing transportation service and to protect the customers  
9 choosing to stay on sales service from incurring any additional costs.

10 **III. THE BALANCING AND CASH-OUT PROVISIONS OF MGE'S**  
11 **TARIFF**

12 **Q. YOU INDICATED EARLIER THAT YOU HAVE CONCERNS WITH MGE'S**  
13 **TRANSPORTATION TARIFF. WHAT ARE THOSE CONCERNS?**

14 A. The first is that MGE maintains the right to call an Operational Flow Order  
15 (OFO) day even when an OFO day is not being called by the applicable  
16 interstate pipeline. From my experience, OFO days are usually only allowed  
17 to be called by a local distribution company such as MGE when the applicable  
18 interstate gas system delivering gas to the utility calls an OFO.

1   **Q.    WHAT IS AN “OFO DAY”?**

2    A.    An OFO day usually refers to an Operational Flow Order issued by the  
3           applicable pipeline when it has concerns that it may have problems meeting  
4           everyone’s delivery requirements on the pipeline, including gas utilities like  
5           MGE, marketers, and individual customers purchasing their supplies  
6           separately. Marketers like Constellation are notified of an OFO day by email  
7           and also by reading the utility’s bulletin board. On an OFO day, marketers like  
8           Constellation are required to keep their nominations of gas into the system,  
9           and receipts of gas by its customers, within a five percent tolerance or be  
10          subject to penalties. This means, for example, that if Constellation nominates  
11          10,000 Ccf on a given day and the applicable customers consume less than  
12          9,500 Ccf or more than 10,500 Ccf on that day, Constellation will be charged  
13          penalties for being below or above the tolerance level.

14   **Q.    WHAT IS THE POLICY REASON FOR HAVING OFO DAYS?**

15   A.    In order to insure system integrity, the interstate pipeline requires each entity  
16          receiving gas supplies off the interstate pipeline to provide more exact  
17          nominations of their daily needs on the pipeline. This policy is necessary to  
18          insure, to the greatest degree possible, that everyone receives the amount of  
19          natural gas supply required to meet their needs in accordance with what they  
20          nominated to be delivered to them. Matching daily nominations with actual  
21          receipts of gas is called “balancing.” Failure to comply with these tighter  
22          tolerances between daily nominations and actual gas receipts can result in

1 significant penalties for those parties taking more gas than they nominated off  
2 the interstate system.

3 **Q. IS THIS POLICY JUSTIFIED?**

4 A. Balancing natural gas nominations and actual receipts is very important for an  
5 interstate pipeline. Without balancing provisions, an interstate pipeline could  
6 be in a situation where more gas could be taken out of the system than was  
7 being nominated or delivered into the system. This could result in some  
8 utilities served off the interstate pipeline not having enough gas to meet the  
9 needs of their customers.

10 **Q. WHY SHOULDN'T MGE BE ALLOWED TO CALL OFO DAYS ON ITS OWN?**

11 A. If MGE is allowed to call an OFO day without one being called by the  
12 applicable interstate pipeline, it means they apparently have not purchased  
13 enough natural gas supply to meet the needs of their sales customers.  
14 MGE's inability to forecast the needs of its own sales customers should not  
15 result in tighter balancing requirements for marketers like Constellation who  
16 have contracted with some other party to purchase gas supplies and meet the  
17 needs of their customers.

18 **Q. IN GENERAL, HOW SHOULD LOCAL DISTRIBUTION COMPANIES LIKE MGE**  
19 **SET THE OFO AND BALANCING RULES IN THEIR RESPECTIVE**  
20 **TRANSPORTATION TARIFFS FOR TRANSPORTATION SERVICE?**

21 A. The local distribution company should design its transportation rules to  
22 "mirror" the applicable interstate pipeline to insure they recover all the  
23 penalties coming from the interstate pipeline from the party on their system

1 responsible for the penalty. Anything more than that, such as being allowed  
2 to call OFO when one is not being called by the interstate pipeline, means  
3 they are attempting to recover from someone else a penalty that the other  
4 party is not responsible for.

5 **Q. DO YOU HAVE ANY OTHER PROBLEMS WITH THE MGE TRANSPORTATION**  
6 **TARIFF IN THIS CASE?**

7 A. I do. Some interstate pipelines allow for natural gas imbalances to be carried  
8 over to the next month. MGE can certainly take advantage of this provision.  
9 However, the proposed MGE tariff does not allow for marketers and  
10 customers purchasing their own gas supplies on the MGE system to receive  
11 this same benefit. Requiring the marketer to be cashed out on a monthly  
12 basis when not required by the interstate pipeline results in the marketer  
13 being penalized on the cash-out pricing as explained starting on page 61.1 of  
14 MGE's proposed new transportation tariff. If the marketer under-nominates  
15 (nominates less gas than is actually delivered to its customers), the marketer  
16 must pay to MGE a *much* higher price for the extra gas it needed than the  
17 price MGE must pay to the marketer if the marketer *under*-nominates  
18 (nominates more gas than its transportation customers receive). If MGE can  
19 carry-over its imbalances to the next month with its interstate pipeline, but the  
20 marketer cannot do so with MGE, MGE stands to unfairly benefit at the  
21 expense of the marketer and of transportation customers. This is another  
22 example of MGE putting unnecessary restrictions in its tariff to present a  
23 barrier to customers wanting to receive transportation service.

1   **Q.    FROM YOUR EXPERIENCE, DOES IT COST A UTILITY LIKE MGE MORE OR**  
2       **LESS TO PROVIDE SERVICE TO A CUSTOMER ON TRANSPORTATION**  
3       **COMPARED TO SERVING THE SAME SIZE CUSTOMER ON SALES SERVICE**  
4       **FROM THE UTILITY?**

5   A.   In my years of experience in the natural gas industry, it costs less for a utility  
6       like MGE to serve a similarly-situated customer on transportation service  
7       versus sales service.

8   **Q.    CAN YOU PROVIDE A BRIEF EXPLANATION FOR THIS?**

9   A.   Yes, I can.   There are some definite differences in costs to serve sales  
10       versus transportation customers:

11  
12       1. A major portion of the working capital a utility must provide to stay in  
13       business is the cost of gas supply. Transportation customers or the  
14       applicable marketer provide their own gas supply, reducing the working  
15       capital requirements of the utility.

16  
17       2. Utilities must maintain a gas supply department to meet the needs of their  
18       sales customers. Transportation customers lessen the burden of the  
19       utility's gas supply department.

20  
21       3. Bad debt expense is a major expense for utility companies. Any bad debt  
22       expense attributable to transportation customers would be much less for  
23       the utility to bear because the gas supply portion of the bad debt has been  
24       provided by the gas marketer, such as Constellation.

1  
2 4. There are some incremental expenses applicable to providing  
3 transportation service. However, these are usually set out in separate  
4 charges to the transportation customer.

#### 5 IV. CONCLUSION

##### 6 Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

7 A. First, MGE should be required to reduce its threshold for eligibility for  
8 transportation service so that smaller commercial customers could avail  
9 themselves of the opportunity to secure gas supplies at a set price for some  
10 period of time and have it transported to them by MGE. Constellation  
11 proposes the threshold be reduced from the existing standard of exceeding  
12 15,000 Ccf in any one month of a 12-month billing period, to a threshold of  
13 using 30,000 Ccf per year. That would be a higher threshold than exists in the  
14 Ameren-UE and The Empire District Gas Company service areas, but would  
15 be consistent with the threshold of Kansas Gas Service on the other side of  
16 the Missouri River in the Kansas City area. In addition, the Commission  
17 should not allow MGE to call OFO days when the applicable interstate  
18 pipeline has not done so. MGE's tariff allows it to recover from another party  
19 (such as a gas marketer) a penalty for which the other party is not  
20 responsible. Finally, the Commission should order MGE to clarify its tariff to  
21 allow transportation customers and marketers to be able to carry imbalances  
22 over to the next month, if allowed by the applicable interstate pipeline. The

1 tariffs proposed by MGE in this case create unnecessary and undesirable  
2 barriers to transportation service.

3 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

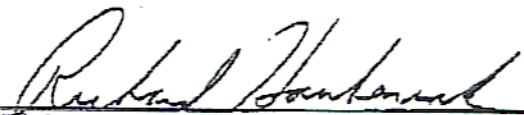
4 **A.** Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

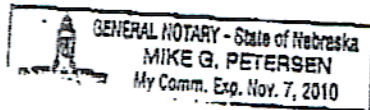
In the Matter of Missouri Gas Energy And       )  
Its Tariff Filing To Implement a General       )  
Rate Increase for Natural Gas Service       )       Case No. GR-2009-0355

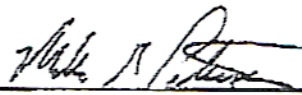
AFFIDAVIT OF RICHARD HAUBENSAK

Richard Haubensak, of lawful age, on his oath, states that he has participated in the preparation of the foregoing Direct Testimony In question and answer form, to be presented in the above case; that the answers in the foregoing Direct 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.

  
Richard Haubensak

Subscribed and sworn before me this 2<sup>nd</sup> day of September 2009.



  
Notary Public

My Commission Expires: 11/7/10

1 A.