

Exhibit No.:
Issue: Gas Purchasing Practices
Witness: Lesa A. Jenkins
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2004-0209
Date Testimony Prepared: June 14, 2004

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

LESA A. JENKINS

FILED

JUL 13 2004

Missouri Public
Service Commission

**MISSOURI GAS ENERGY
CASE NO. GR-2004-0209**

*Jefferson City, Missouri
June 2004*

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

NP

Exhibit No. 821 NP
Case No(s) GR-2004-0209
Date 6-28-04 **Rptr** KE

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

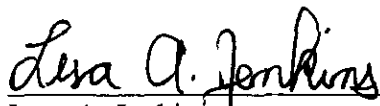
In the Matter of Missouri Gas Energy's)
Tariffs to Implement a General Rate)
Increase for Natural Gas Service)

Case No. GR-2004-0209

AFFIDAVIT OF LESA A. JENKINS

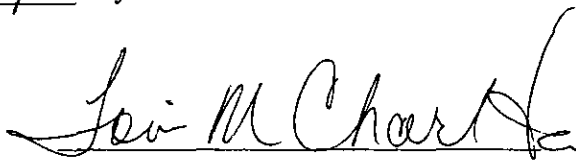
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

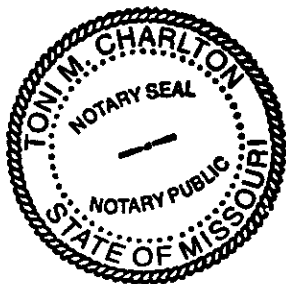
Lesa A. Jenkins, being of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 14 pages to be presented in the above case; that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.



Lesa A. Jenkins

Subscribed and sworn to before me this 9th day of June 2004.





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

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Surrebuttal Testimony of
Lesa A. Jenkins

1 Gamble in various production and quality control/quality assurance team manager positions
2 in Cape Girardeau, Missouri and then in Cincinnati, Ohio. I began employment in my
3 current position with the Commission in November 1999.

4 Q. Please describe your duties while employed by the Commission?

5 A. The nature of my duties at the Commission has been to investigate and review
6 natural gas reliability/peak day plans of the natural gas local distribution companies in order
7 to determine the reasonableness of the assumptions for estimating demand requirements; to
8 analyze the companies' estimating tools; to review and analyze transportation
9 capacity/storage/peaking/supply resources utilized by the companies; to review and analyze
10 company base load and other gas supply requirements; and to review and analyze the
11 rationale for the companies' reserve margins--capacity in excess of the requirements
12 estimated to be needed for peak day requirements. I also assist in matters involving analysis
13 of economic dispatch models, gas supply plans, incentive plans, hedging plans and service
14 area expansions.

15 Q. Have you previously filed testimony before this Commission?

16 A. Yes, I have. See Schedule 1 attached to this surrebuttal testimony for a list of
17 prior cases and issues. Additionally, I have prepared 38 reliability reviews as part of the filed
18 Staff Actual Cost Adjustment (ACA) recommendations since November 1999, as listed in
19 Schedule 1.

20 Q. Have you previously filed testimony in this case?

21 A. No. I had not intended to file testimony in this case, but comments made by
22 Missouri Gas Energy (MGE or Company) witness Michael R. Noack in his rebuttal
23 testimony in this proceeding necessitate a response.

Surrebuttal Testimony of
Lesa A. Jenkins

1 Q. Did you make an analysis of the books and records of the Company in regards
2 to matters relevant to this case?

3 A. Yes, I did. I reviewed the gas purchasing practices section of the direct
4 testimony of Staff witness Anne M. Allee, the related rebuttal testimony of MGE
5 witness Noack, and past Reliability Reports and documents related to natural gas supply and
6 capacity planning.

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

8 A. I will address the Staff's recommendation for MGE to file with the
9 Commission by October 1, in the applicable ACA case, both a Natural Gas Supply Plan
10 annually and an updated Capacity Analysis/Reliability Analysis every two to three years, so
11 that current information is available before MGE makes contract or other natural gas
12 purchasing decisions.

13 Q. What knowledge, skills, experience, training or education do you have in
14 these matters?

15 A. Both my MBA and BSIE degrees provided formalized coursework that gave
16 me knowledge and skills that I use in review of natural gas local distribution company (LDC)
17 Supply Plans and Capacity Analysis/Reliability Analysis. My 21 years of
18 engineering/management work experience provide me with experience from project reviews
19 and additional knowledge has been gained from training courses and review of technical
20 information. Twelve of these years of work experience related specifically to energy issues.
21 The projects that I have worked on over my 21 years of engineering/management work in
22 private industry and government have allowed me to look at issues from various vantage

Surrebuttal Testimony of
Lesa A. Jenkins

1 points, such as consumer wants and needs, business goals and limitations and requirements
2 and limitations presented by rules and regulations.

3 **GAS PURCHASING PRACTICES**

4 Q. Mr. Noack states in his surrebuttal testimony that he does not agree with the
5 proposed reporting requirements (Noack Rebuttal, p. 33). Additionally he states that there is
6 no indication that what the Staff is proposing is factually unique to MGE, and as such it
7 appears to be an attempt to impose a general requirement on MGE without following the
8 process used for setting state regulations. Do you agree with these statements?

9 A. No. For clarification, Mr. Noack's comments address proposed reporting
10 requirements in several different areas of MGE's operations. This surrebuttal testimony is
11 intended to address reporting requirements only for Staff's recommendation for periodic
12 capacity analysis/reliability reports and gas supply plans.

13 The fact that a natural gas LDC must routinely examine data and evaluate current and
14 expected future natural gas capacity and supply requirements is not unique to MGE.
15 However, MGE is unique in at least two ways with regard to the need for a requirement for it
16 to prepare and submit a formal natural gas capacity plan and supply plan. First, MGE is
17 unique in that it continues to argue that there must be a rule in place for it to document its
18 plans for providing safe and reliable service at just and reasonable rates for natural gas
19 capacity and supplies for its customers.

20 A prudent LDC develops and uses a capacity/demand analysis and supply analysis to
21 adequately plan for a reliable service to its customers at reasonable costs. By routinely
22 evaluating usage data, the LDC can determine whether usage patterns have changed and take
23 appropriate action to update natural gas capacity and supply plans. Updated

Surrebuttal Testimony of
Lesa A. Jenkins

1 demand/capacity analyses are a means to document usage patterns, projected growth and
2 changes in supply planning needed to meet customer needs during normal weather and the
3 extremes of warmest month weather, coldest month weather and a peak cold day.
4 Additionally, there may be other LDC or system constraints that must be considered in a
5 LDC demand/capacity analyses and supply plans so that the LDC adequately plans for the
6 natural gas requirements of its customers.

7 Staff reviews of capacity and supply planning and the LDC's rationale for its reserve
8 margin are in response to the requirement that an LDC provide safe and reliable service at
9 just and reasonable rates (Section 393.130.1, RSMo). MGE is a regulated utility, subject to
10 the oversight of the Commission for its natural gas supply and transportation decisions. Staff
11 must review the LDC's actions in light of conditions and information known at the time the
12 decisions and actions were taken and make a recommendation to the Commission in response
13 to the Company's ACA filing. To assure sufficient capacity is available to meet firm
14 customer peak day capacity and natural gas supply requirements, but that customers are not
15 charged for unnecessary excess capacity, Staff must obtain information from the LDC to
16 understand and evaluate the LDC's rationale for the capacity under contract. If Staff believes
17 that customers are paying for excess natural gas capacity or supply, Staff would evaluate the
18 cost of the excess to make a determination as whether to recommend a refund to customers.

19 Q. What is the second way that MGE is unique?

20 A. MGE's gas supply department was completely dismantled and restarted from
21 scratch in the winter of 2002/2003. Southern Union, MGE's parent company, sold its Texas-
22 based operations to ONEOK, transferring the whole of its gas supply operations, including its
23 assembled workforce, to ONEOK, with the exception of the Vice President of Gas Supply,

Surrebuttal Testimony of
Lesa A. Jenkins

1 Mr. Michael Langston, who was transferred to Energy Worx. (ONEOK is the Company that
2 purchased the Texas operations of Southern Union. Energy Worx was a subsidiary of
3 Southern Union.) Southern Union's gas supply department previously made the gas
4 purchases for MGE and its captive customers. Thus, the trained and knowledgeable
5 workforce, with its critical expertise and all the institutional knowledge of MGE's gas
6 purchasing practices, was gone. MGE had to completely build a gas purchasing department,
7 which it needs to supply gas to its customers. (Staff's Report filed January 9, 2004, in the
8 Investigation into Southern Union's Corporate Reorganization and the Sale, Transfer or
9 Disposal of Its Gas Supply Department to ONEOK, pages 5-8, Case No. GO-2003-0354.
10 [The relevant pages are attached to my surrebuttal testimony as Schedule 2].) There was a
11 transition agreement between ONEOK and MGE for natural gas planning and purchasing in
12 which, during a ninety day period during January through March 2003, ONEOK employees
13 provided support to MGE, until its employees could become familiar with the systems and
14 processes and contracts (April 15, 2004, deposition of David Kirkland, p. 7, ll. 16 - p. 9, l. 6,
15 p. 16, ll. 6 - 20 in Case No. GR-2003-0330. (The relevant pages are attached to my
16 surrebuttal testimony as Schedule 3.)

17 Employee turnover is a major reason to have written policies, procedures and
18 guidelines for the natural gas demand/capacity analyses and supply plans, a critical function
19 to assure safe and reliable service at just and reasonable rates for natural gas capacity and
20 supplies for MGE's customers. In fact, in an informal telephone conference held on
21 February 28, 2003, (relevant pages are attached to this surrebuttal testimony as Schedule 4)
22 Mr. Kirkland, MGE's current manager of the gas supply function, states that:

23 . . . I've also been provided a copy of the reliability report that was
24 prepared, and I believe submitted to commission last year, which was

Surrebuttal Testimony of
Lesa A. Jenkins

1 quite informative, how the company views its position with respect to
2 demand, demand on peak day, how that's calculated, some of the
3 sensitivities there. Also with respect to supply capacity and the
4 adequacy of the capacity at this time, so that was a very informative
5 and good document to review.

6 (Transcript of interviews in an informal telephone conference,
7 February 28, 2003, p. 19, l. 20-p. 20, l. 3, Case No. GM-2003-0238.)

8 Q. Mr. Noack states in his rebuttal testimony, "If there is a problem that is
9 factually unique to MGE, then a complaint should be filed" (Noack Rebuttal, p. 33). What is
10 Staff's response to this statement?

11 A. Although the Staff has many concerns with past MGE reliability analyses,
12 Staff has addressed these issues in the ACA cases. Recommendations related to improved
13 reliability analysis were included in the Staff ACA recommendations for the 1999/2000,
14 2000/2001 and 2001/2002 ACA cases, Case Nos. GR-2000-425, GR-2001-382 and
15 GR-2002-348, respectively.

16 Staff analyzed MGE's 2000/2001 Reliability Report in the 1999/2000 ACA case and
17 the 2000/2001 ACA case, Case Nos. GR-2000-425 and GR-2001-382. (A 1999/2000
18 Reliability Report was not submitted). These cases have been consolidated with two prior
19 cases and are currently pending before the Commission. In the 1999/2000 ACA case, Case
20 No. GR-2000-425, one of the reliability recommendations was that MGE provide the
21 regression analyses input and output sheets supporting its 2000/2001 Reliability Report. This
22 Reliability Report states that a series of regression analyses are performed on the historic
23 daily firm sales to determine the base load and weather sensitive heat load factors.
24 Ultimately MGE revealed that the regression analyses on which it based the peak day
25 estimates for the eleven years 2000-2001 through 2010-2011 were undertaken in 1994, and
26 the input and output sheets of these regression analyses could not be located. In both the
27 1999/2000 and 2000/2001 ACA cases, Staff could not determine whether other demand

Surrebuttal Testimony of
Lesa A. Jenkins

1 estimates in the reliability report were also based on this 1994 analysis that cannot be found,
2 an analysis of data that was at least six-years old at the time of the Reliability Report.
3 Because the data cannot be found, MGE cannot establish, and Staff cannot confirm, that
4 these estimates of demand are reasonable. Even if the 1994 analysis could be found, Staff
5 was concerned that analysis of data that was at least five to six-years old prior to the date of
6 these Reliability Reports would not be representative of customer usage for the ACA periods
7 under review. In the 2000/2001 ACA case, Case No. GR-2001-382, Staff recommended
8 among other things that the Commission order MGE to provide current analysis of the usage
9 data. MGE has not agreed to provide updated information in response to that case.

10 In the 2001/2002 ACA case, Case No. GR-2002-348, Staff recommended that MGE
11 provide reliability information, including items such as the following: adequacy of capacity
12 planning for Kansas City, Joplin and St. Joseph service areas of the MGE system; capacity
13 issues noted for the areas served by each pipeline and a specific concern listed for the
14 Warrensburg area; information to address Staff concerns regarding MGE's methodology for
15 calculating system-wide peak day requirements and monthly requirements; and information
16 to address Staff concerns regarding MGE's plans for withdrawals of natural gas from storage
17 for normal weather and for cold and warm weather.

18 In the MGE response to the Staff recommendations, the Company disagreed with
19 providing the requested reliability analysis information. However, on April 1, 2004, MGE
20 provided an updated draft Demand/Capacity Analysis dated March 1, 2004. Staff has
21 numerous questions and comments regarding this draft and these have been forwarded to
22 MGE. This draft analysis does not include any details regarding MGE's supply plans.
23 Additionally, it states that MGE intends to update the Demand/Capacity Analysis prior to the

Surrebuttal Testimony of
Lesa A. Jenkins

1 winter of 2004/2005 and thereafter "as needed." Given that the 2000/2001 Reliability Report
2 was still relying on data from a 1994 analysis, data that was at least six years old at the time
3 of the analysis, Staff questions what MGE would consider "as needed." This is a vague
4 reference and it seems reasonable to expect the demand/capacity planning to be done prior to
5 contract decisions being made by MGE. A frequency of every two to three years for
6 demand/capacity planning, and more frequent if contractual changes or contractual reviews
7 occur more frequently, is the minimum that Staff believes is acceptable to properly plan for
8 adequate, but not excess capacity, for MGE's customers.

9 Staff's recommended frequency for natural gas supply plans is annually because
10 many of the contracts/agreements for gas supply are for terms of one year or shorter. More
11 detail regarding the need for routine and frequent filing of natural gas demand/capacity
12 analyses and plans and natural gas supply plans was filed by Staff witness Anne Allee earlier
13 in this proceeding (Allee direct, p. 7, l. 7 – p. 8, l. 20).

14 Q. Are there other reasons for MGE to provide periodic demand/capacity
15 analyses and plans and periodic gas supply plans?

16 A. Yes. As noted in MGE's 2002/2003 Reliability Report and in prior Reliability
17 Reports, ** _____

18 _____
19 _____
20 _____
21 _____

22 _____ ** (MGE 2002/2003 Reliability Report, page 32).

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Surrebuttal Testimony of
Lesa A. Jenkins

1 Q. Is Staff's recommendation for periodic or more detailed natural gas
2 demand/capacity analyses and plans and natural gas supply plans unique to MGE?

3 A. No. Staff filed recommendations related to reliability analysis documentation
4 in numerous other ACA cases. For example, in the AmerenUE 1998/1999 ACA case, Case
5 No. GR-99-396, Staff recommended that the Commission issue an order requiring
6 AmerenUE to:

7 Annually review and routinely update Company assumptions used to
8 estimate the peak and annual demand for each of the three AmerenUE
9 Missouri systems to assure sufficient capacity, but not excess capacity,
10 is available to meet peak day requirements.

11 a. Staff recommends that AmerenUE conduct and submit
12 a revised peak day and annual demand study for the Region
13 East – Cape Girardeau, Natural Gas Pipeline system; and
14 Region West – Jefferson City, Panhandle Eastern Pipeline
15 system. A revised Demand Study was received for the Region
16 East – Cape Girardeau, Texas Eastern Transmission
17 Corporation on 6/19/00; for this system, it is recommended that
18 a comparison to two or more actual peak days be submitted and
19 that a revised peak day and annual demand study be submitted
20 if warranted. Submit by November 15, 2000.

21 b. For each of the three AmerenUE Missouri systems,
22 submit a comparison of actual sendout and heating degree days
23 (HDD) for two or more recent peak days to the estimated
24 demand for those conditions (HDD and number of customers).
25 Provide an explanation when the model does not reasonably
26 agree with the actual load encountered. Submit by
27 November 15, 2000.

28 c. For each of the three AmerenUE Missouri systems,
29 estimate the reserve margin for the 1999/00 ACA period and
30 for three to five years beyond that. Consider the costs of the
31 reserve margin when setting transportation capacity
32 requirements for the 1999/00 ACA period and beyond. Submit
33 by November 15, 2000.

34 In its response to Staff Recommendations, AmerenUE agreed to provide a complete
35 demand study for each region every two or three years. AmerenUE further noted that it
36 would conduct annual reviews. Further, if the annual review process revealed significant

Surrebuttal Testimony of
Lesa A. Jenkins

1 deviations between actual demand and calculated demand, it would conduct a complete
2 demand study prior to the scheduled demand study cycle. In the Commission Order
3 Requiring Adjustment of ACA Balance in Case No. GR-99-396, issued September 12, 2000,
4 it noted that AmerenUE's response, filed September 5, 2000, indicates that AmerenUE has
5 reviewed Staff's recommendations and agrees with them. The Commission ordered
6 AmerenUE to "... annually review and routinely update company assumptions used to
7 estimate the peak and annual demand for each of the three AmerenUE Missouri systems to
8 assure sufficient capacity, but not excess capacity, is available to meet peak day
9 requirements."

10 Another example is the Laclede Gas Company (Laclede) 2000/2001 ACA case, Case
11 No. GR-2001-387, in which Staff recommended that the Commission issue an order
12 requiring Laclede to:

13 Take the following actions by November 1, 2002:

- 14 a. Submit an updated Reliability Report that includes
15 information regarding the 2001/2002 and 2002/2003 ACA
16 periods.
- 17 b. For the updated Reliability Report, eliminate inclusion
18 of the additional slope value in the estimation of 0° Sendout.
- 19 c. For the updated Reliability Report, evaluate whether the
20 winter normalization factors from the 1990/1991 study are still
21 appropriate. If the winter normalization factors are revised,
22 provide the analysis supporting the revision. If different winter
23 normalization factors continue to be used for each division,
24 provide supporting detailed documentation for each division.
- 25 d. For the updated Reliability Report, provide supporting
26 documentation for the derivation of the load factors used in the
27 sendout model for each division for the customer classes of
28 commercial-other, industrial-other, and firm transportation.
29 Also for these customer classes and divisions, show the 0°
30 Sendout and Base Sendout and the analyses supporting these
31 numbers for 1997/1998, 1998/1999, 1999/2000, and
32 2000/2001.

Surrebuttal Testimony of
Lesa A. Jenkins

1 e. Submit a summary of actual usage and actual heating
2 degree days (HDD) for five or more of the coldest days from
3 the 2000/2001 and 2001/2002 winters. Compare the usage on
4 these actual cold days to the usage estimated by the Company's
5 sendout model for those days. Include a calculation of the
6 percent over (under) estimation by the sendout model. Explain
7 and show the calculations of how the actual usage data is
8 adjusted so that it only includes the same customer classes as
9 the Company's sendout model. Provide an explanation when
10 the modeled usage does not reasonably agree with the actual
11 usage encountered. If the sendout model is re-evaluated based
12 on these findings, provide the re-evaluated sendout model.

13 f. Provide updated capacity ratings (theoretical capacity
14 and operational capacity) for the Lange and Catalan propane
15 facilities.

16 g. Provide updated justification for the capacity held in the
17 Laclede Lange underground storage facility. Include an
18 analysis showing under what circumstances this facility would
19 be nearly fully utilized.

20 h. Provide justification for the lower pipeline capacity
21 shown in the Company 2000/2001 Reliability Report.
22 Additionally, if the pipeline capacity is different in the
23 Reliability Report to be submitted that addresses the 2001/2002
24 and 2002/2003 ACA periods, provide documentation
25 supporting the revised capacity.

26 i. Submit a reserve margin estimate for the 2001/2002
27 ACA period and for three years beyond that. Explain the
28 rationale for the reserve margin for each of these years.

29 j. Provide an estimate of the variability of the sendout
30 model and rationale for a reasonable reserve margin.

31 In the Response of Laclede Gas Company to Staff Recommendation in Case
32 Nos. GR-2001-387 and GR-2000-622, filed May 31, 2002, Laclede agreed to the Staff
33 reliability recommendations, with some modifications to the due dates or the period being
34 reviewed and limitations to the response to recommendation 3 above for data availability
35 reasons.

36 Another example is the Aquila Networks-MPS 1999/2000 ACA case, Case
37 No. GR-2000-520 and 2000/2001 ACA case, Case No. GR-2001-461, in which Staff

Surrebuttal Testimony of
Lesa A. Jenkins

recommended that the Commission issue an order requiring the Company to take actions related to the Company's reliability analysis by November 1, 2002. These actions were detailed in Staff recommendation 4a through 4f. Staff also recommended that by November 1, 2002, Aquila Networks - MPS (MPS) submit a copy of its policies and procedures, as a guideline, for those responsible for nominating natural gas to include information such as the interaction between short-term weather forecasts, pricing information, nomination deadlines, demand forecasts, end-user analysis, required storage targets, actual storage balances, storage telemetry, existing gas supply contracts and constraints, and first-of-the-month flowing versus daily market levels.

In the Response to Staff Memorandum and Recommendation in Case Nos. GR-2000-520 and GR-2001-461, filed August 12, 2002, MPS states that it does not object to providing the information requested by Staff in Recommendation 4a through 4f. MPS also states:

While MPS does not agree with all of the Staff's conclusions, MPS does not object to providing a copy of its policies and procedures, as a guideline for those responsible for nominating natural gas. The policies and procedures will include, at a minimum, the interaction between short-term weather forecasts, pricing information, nomination deadlines, demand forecasts, end-user analysis, required storage targets, actual storage balances, storage telemetry, existing gas supply contracts and constraints, and first-of-the-month flowing versus daily market levels. These variables will be considered, at least implicitly, in spreadsheet summaries containing the various inputs that eventually result in determination of the amount of flowing supply to nominate.

Q. Please summarize the issue addressed by your surrebuttal testimony.

A. My surrebuttal testimony provides support for the Staff recommendation that MGE file with the Commission by October 1, in the applicable ACA case, both a Natural Gas Supply Plan annually and an updated Capacity Analysis/Reliability Analysis every two to three years, so that current information is available before MGE makes contract or other

Surrebuttal Testimony of
Lesa A. Jenkins

1 natural gas purchasing decisions. A prudent LDC routinely develops and uses a
2 capacity/demand analysis and supply analysis to adequately plan for a reliable service to its
3 customers at reasonable costs, and provides such documentation to Staff. Staff has requested
4 capacity/demand analysis and supply analysis or similar type information of other Missouri
5 LDCs, who have agreed to provide it.

6 Q. Does this conclude your surrebuttal testimony?

7 A. Yes, it does.

SUMMARY OF TESTIMONY AND STAFF RECOMMENDATIONS

LESA A. JENKINS

Testimony:

Company Name	Case Number	Issues	Testimony Filed
Missouri Gas Energy	GR-2001-382, GR-2000-425, GR-99-304, GR-98-167 Consolidated	Purchasing Practices - Minimum Level of Hedging; Purchasing Practices - Storage; Reliability Analysis	Direct, Rebuttal, Surrebuttal, Supplemental Direct, Supplemental Rebuttal
Aquila, Inc. d/b/a Aquila Networks -- MPS	GR-2000-520 and GR-2001-461 Consolidated	Purchasing Practices-Eastern System; Purchasing Practices-Southern System; Reliability Analysis	Direct, Rebuttal
Atmos Energy Corporation and United Cities Gas Company	GR-2001-396 and GR-2001-397 Consolidated	Atmos Energy Corporation: Purchasing Practices -- General; Purchasing Practices -- Southeast Missouri Integrated System; Reliability Analysis United Cities Gas Company: Purchasing Practices -- General; Purchasing Practices -- Neelyville District; Purchasing Practices -- Consolidated District; Reliability Analysis	Direct, Rebuttal

ACA Recommendations:

Company Name	Case Number	Staff ACA Recommendation Filed
2002/2003 ACA Reviews		
Fidelity Natural Gas, Inc	GR-2003-0323	2/26/2004
Southern Missouri Gas Company	GR-2004-0193	5/19/2004
2001/2002 ACA Reviews		
Missouri Gas Energy	GR-2002-348	12/19/2003
Atmos - Areas B, K, & S (old ANG)	GR-2003-0150	9/15/2003
Atmos - Area G (Greeley)		
Atmos - Areas P&U (old United Cities)		
Aquila Networks - MPS	GR-2002-392	8/15/2003
Aquila L & P (old St. Joseph Light & Power)	GR-2002-468	8/7/2003
Southern Missouri Gas Company	GR-2002-440	5/22/2003

Ameren UE	GR-2002-438	5/15/2003
Fidelity Natural Gas, Inc	GR-2003-0148	3/26/2003
2000/2001 ACA Reviews		
Southern Missouri Gas Company	GR-2001-388	10/31/02
Atmos - Areas B, K, & S (old ANG)	GR-2001-396	09/30/02
Atmos - Areas P&U (old United Cities)	GR-2001-397	08/29/02
Aquila Networks - MPS	GR-2001-461	07/09/02
Laclede Gas Company	GR-2001-387	06/28/02
Fidelity Natural Gas, Inc	GR-2001-495	06/28/02
Missouri Gas Energy (MGE)	GR-2001-382	05/31/02
Ameren UE	GR-2001-488	02/07/02
Atmos - Area G (Greeley)	GR-2001-394	01/18/02
1999/2000 ACA Reviews		
United Cities Gas Company / Atmos	GR-2000-392	08/29/02
Missouri Public Service /UtiliCorp	GR-2000-520	07/09/02
Laclede Gas Company	GR-2000-622	03/15/02
Missouri Gas Energy (MGE)	GR-2000-425	11/27/01
Ameren UE	GR-2000-579	11/15/01
Associated Natural Gas (ANG)/ Atmos	GR-2000-573	11/01/01
St. Joseph Light & Power (SJLP) / UtiliCorp	GR-2000-574	08/28/01
Southern Missouri Gas Company	GR-2001-39	07/02/01
Fidelity Natural Gas, Inc	GR-2001-250	06/01/01
Greeley Gas Company /Atmos	GR-2001-36	05/01/01
1998/1999 ACA Reviews		
United Cities Gas Company	GR-99-280	09/29/00
Missouri Public Service (MPS)	GR-99-435	09/01/00
Laclede Gas Company	GR-99-316	08/14/00
Missouri Gas Energy (MGE)	GR-99-304	08/01/00
Associated Natural Gas (ANG)	GR-99-392	08/01/00
Southern Missouri Gas Company	GR-2000-288	08/01/00
Ameren UE	GR-99-396	07/31/00
St. Joseph Light & Power (SJLP)	GR-99-394	06/30/00
Fidelity Natural Gas, Inc	GR-2000-285	06/30/00
Greeley Gas Company	GR-2000-319	05/01/00

STAFF'S INVESTIGATION
INTO SOUTHERN UNION'S CORPORATE REORGANIZATION
AND THE SALE, TRANSFER OR DISPOSAL
OF ITS ENTIRE GAS SUPPLY DEPARTMENT TO ONEOK AND ENERGY WORX

I. INTRODUCTION

Section §393.190 requires that a Missouri utility seek the authorization of the Missouri Public Service Commission before it sells or transfers any part of its franchise, system or works. Was Southern Union Company (SU or Company) required to seek Commission authorization prior to selling rate base property and transferring its assembled experienced and trained gas supply workforce? Yes. Missouri courts have interpreted this Section to mean that a utility may not sell or transfer assets that are necessary and useful in the provision of service without obtaining Commission authorization. SU sold and transferred assets. Whether the transfer involved assets that were useful and necessary in the provision of service is a matter for the Commission, as the finder of fact, to decide. The question before the Commission now is whether SU violated Missouri law by ignoring its statutory obligation to seek Commission authorization.

Staff's investigation of the transfer or sale or other disposal of property and other assets, however, has led Staff to conclude that the transfer of assets, as implemented, required Commission authorization, and absent that authorization, that SU violated Missouri law. Staff's investigation revealed facts establishing that Southern Union, as part of the sale of its Texas operations, sold or transferred parts of its franchise, works and system, assets and property, and that SU should have come to the Commission for a determination as to whether the assets were useful and necessary in its provision of service to its Missouri captive customers, and whether the transaction was detrimental to the public interest.

The Public Service Commission was established to protect captive customers from overreaching by monopoly utilities, and the Public Utility Law should be liberally interpreted with an eye to protecting the public interest. With a publicly held utility, a natural conflict may arise between making a profit for shareholders and serving the needs of captive utility customers. This case raises important policy questions about the jurisdiction of the Commission to protect captive customers from actions by a utility that moves to benefit shareholders, while ignoring its customers. Section 393.190 is an example of legislation requiring Commission oversight so that utilities may sell or transfer parts of its system or works that are useful in the provision of service. The statute requires a utility company to seek Commission authorization so that it cannot sell rate base property or transfer other assets useful to ratepayers in order to benefit shareholders. In its investigation Staff has been able to determine that in this transaction SU sold rate base property and transferred an assembled workforce that was performing functions necessary and useful to the provision of service in Missouri . SU had the incentive to package the sale to ONEOK for its shareholders benefit by achieving the maximum profit on this transaction. Missouri statutes require that the Commission review this type of transaction to ensure that SU does not pursue its incentive to maximize profit to the detriment of its Missouri ratepayers. The ONEOK sale is precisely the type of situation that requires the Commission to exercise its regulatory authority to determine whether the sale should be approved.

Thus, SU violated Section 393.190 because it sold rate base property and transferred its experienced gas supply workforce in a sale to ONEOK and ignored the requirement of the Missouri statute that requires it to seek Commission authorization before selling any part of its franchise, system, or works necessary and useful in the performance of its duties to the public.

Legal analysis below will show that Missouri courts have interpreted Section 393.190 to mean that a Missouri utility may not sell assets without Commission authorization to do so. State ex rel Martigney Creek Sewer Co. v. Public Serv. Comm'n., 537 S.W.2d 388, 399 (Mo. 1976)(in referring to §393.190 the court notes that no sale of “assets” had taken place); State ex rel. Fee Fee Trunk Sewer, Inc. v. Litz, 596 S.W.2d 466, 468 (Mo.App. 1980).

When Missouri courts have construed Missouri statutes, it is that construction that directs this Commission, not decisions of other courts. As a result of its investigation, Staff has been able to determine that SU did in fact sell Missouri rate base property in the sale to ONEOK, without seeking Commission authorization to do so, in contravention of Section 393.190. SU sold \$2,000,000 of items that had been included in rate base in its last rate case. All property included in rate base is by definition necessary and useful in the performance of duties to the customer. Additionally SU, transferred its entire gas supply workforce as part of (or in connection with Energy Worx) the sale. That transfer was a critical component of the sale.

The Commission should have been given the opportunity to decide whether the assets included in the sale transaction (including utility plant, equipment and trained assembled workforce) was part of MGE’s system, works or franchise, and whether these assets were transferred or sold were useful and necessary to the provision of service. Even though the only issue is whether SU was required by statute to come before this Commission for authorization before transferring or selling assets, in its investigation, Staff determined that the transaction did, in fact, constitute a detriment to the public interest in the form that SU closed the transaction.

II. HISTORY

SU provides regulated natural gas utility service in Missouri through its Missouri Gas Energy (MGE) division. The Commission opened this case on a motion by Staff to investigate issues concerning Southern Union's corporate reorganization that resulted when Southern Union sold its Texas-based operations to ONEOK, transferring the whole of its gas supply operations, including other property and its assembled workforce, to ONEOK with the exception of the Vice President of Gas Supply, Mr. Michael Langston, who was transferred to Energy Worx. The sale/transfer included property that was in rate base and assets used to serve Missouri customers. The sale and transfer resulted in the requirement for MGE to develop its own gas supply department from scratch.

In this report to the Commission, Staff reports on its investigation into the sale/transfer to ONEOK of one of the critical components of MGE's operations. Staff examined this transaction in light of the Commission's statutory authority to generally supervise all natural gas companies to assure that the consumers receive safe and reliable service, and in light of the statutory prohibition against the sale or transfer of the franchise, works, or system used to serve captive customers without Commission authorization. Section 393.190 RSMo.¹

Staff initially informed MGE of its concerns with the ONEOK sale, and with the transfer of assets, when Staff was reviewing the proposed Panhandle Eastern Pipeline acquisition. MGE replied to Staff Data Request No. 5024 that the ONEOK transaction did not involve a sale of the system, works, or franchise necessary and useful in the provision of service to Missouri

¹ All statutory references are to the Revised Statutes of Missouri (2000) unless otherwise noted.

customers. Staff maintains that it is for the Commission and not MGE to determine whether what was being sold or transferred was useful and necessary in the provision of service.

There are several transactions that are relevant to the scope of this investigation. These transactions are Southern Union's acquisition of Panhandle, SU's sale of its Texas business to ONEOK, the settlement of SU's litigation against ONEOK related to Southern Union's effort to acquire Southwest Gas Company, and Southern Union efforts to acquire Williams' Central Pipeline. The relevant chronology has been attached to this report.

III. THE FACTS

MGE is a division of Southern Union Company, a publicly held utility company regulated by the Commission. SU, operating as MGE, is a public utility as defined by § 386.020, and is subject to the jurisdiction of the Commission, pursuant to § 386.250. Further, SU is a gas corporation, as defined by §386.020 (18), that exists to provide natural gas service to consumers in Missouri under the fictitious name "Missouri Gas Energy" (MGE).

In addition to its Missouri operations, prior to the sale to ONEOK, SU provided natural gas service to specific areas in Texas under the fictitious name "Southern Union Gas," (SUG) also a division of SU corporate entity. The SUG division provided the gas supply function for both Missouri and Texas operations including MGE and its Missouri consumers. In particular, SUG provided critical gas-supply functions including: purchasing natural gas, contract management and billing support. In performing these functions, SUG used assets that were included in MGE's Missouri jurisdictional rate base and that were required to provide safe and reliable service to Missouri consumers. MGE's natural gas distribution business is totally

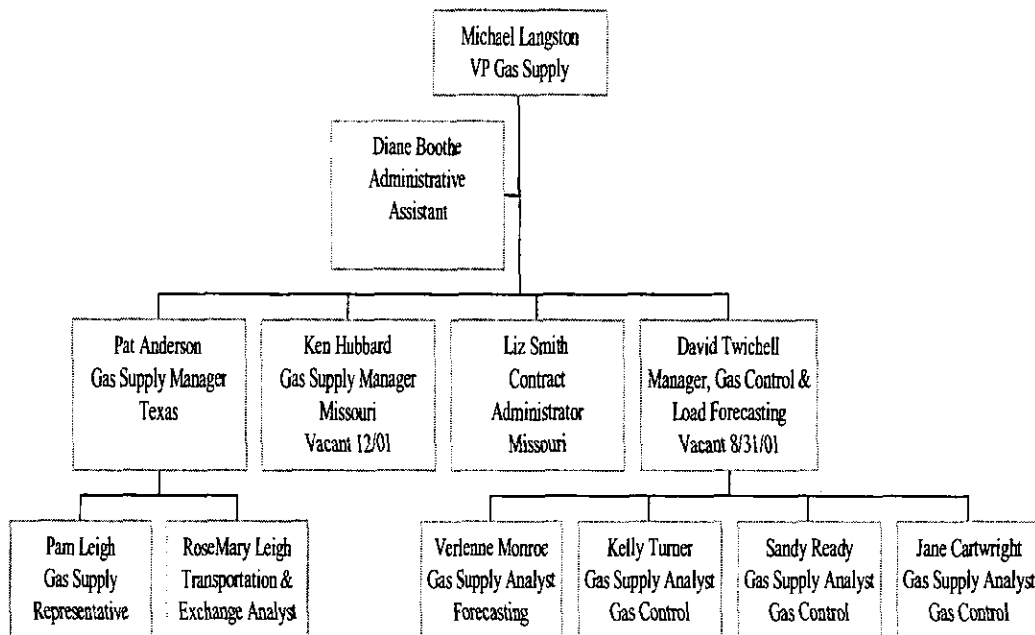
dependant on its ability to deliver natural gas to consumers through arrangements (gas supply, transportation and storage contracts) with suppliers and interstate pipelines to deliver natural gas to its city gates, the point at which the interstate pipeline delivers gas to the local distribution company. The gas purchases for MGE and its captive customers were made by SU's gas supply department, which was disbanded upon the sale of SUG.

When SU sold its Texas SUG division to ONEOK, two things happened. First, ONEOK acquired a Texas local distribution company that consisted of pipelines in several regions, and as part of the transaction, ONEOK also acquired SUG's entire assembled gas procurement workforce, except Mr. Michael Langston, that was experienced in procuring gas for the MGE system that supplies Missouri consumers. To state it another way, in the sale to ONEOK, in addition to the sale of physical assets used to provide services to MGE, SU also transferred, as part of the sale, an in-place, trained and knowledgeable assembled workforce with critical expertise and all the institutional knowledge of MGE's gas purchasing practices, except for the employee that was transferred to a non-regulated affiliate.

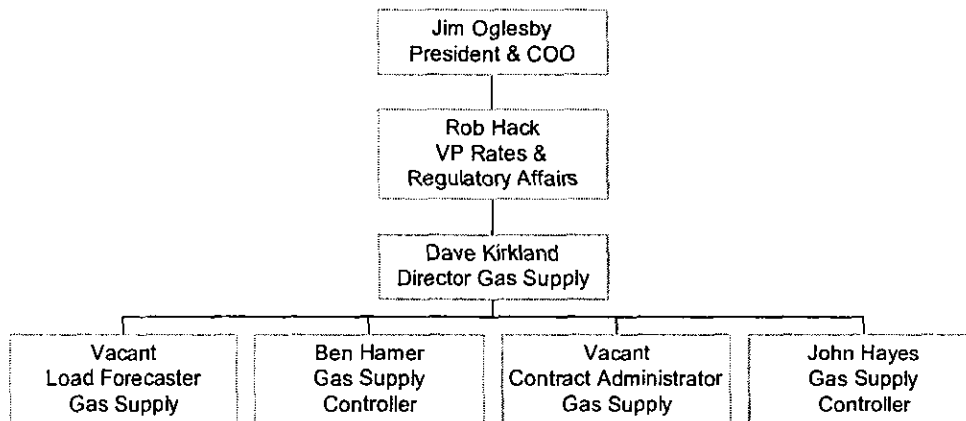
As a result of the sale, MGE had to completely build a gas purchasing department which it needs to supply gas to its customers. The action necessary to assemble a gas purchasing function for MGE was not the result of a corporate decision that MGE's gas supply activities could be improved by immediately replacing all of its trained personnel. This is evidenced by the fact that SU had to contract with ONEOK to support MGE's gas supply activities until it could replace the assets conveyed to ONEOK through the sale. The evidence demonstrates that, in making this sale, which included, among other things, a Texas LDC and SU's entire gas purchasing department, SU sacrificed the interests of its Missouri customers in order to profit

from the sale of a portion of its business to ONEOK. ONEOK needed this trained workforce because it performed the gas supply activities for the property that it was purchasing as well as for MGE's Missouri customers. SU decided to allow its trained workforce to transfer to ONEOK to maximize the value that SU would receive from ONEOK from the sale. SU should have obtained the authorization of this Commission prior to the sale or transfer, and absent Commission authorization to do so, the sale or transfer is void by operation of law under Missouri statutes. Section 393.190.

Texas/Missouri Gas Supply Department @ 12/12/02



Missouri Gas Supply Department @ 2/3/03



V. DISCUSSION

1. SU transferred part of its system, works or franchise in the sale of the Texas business to ONEOK.

SU began gas sale and distribution operations in Missouri in 1994. At that time SU was already performing gas sale and distribution business in Texas. Southern Union combined its Texas and Missouri operations in such a manner so that the operations in one state support the operations in both states. This combination was designed to eliminate duplicate functions being provided in both states. The result was that neither state operation was totally independent of the operation in the other state. Corporate, gas supply, and other functions for both Missouri and Texas operations were located in Texas.

The rates Southern Union charged its Missouri consumers contained significant costs from Southern Union's operations in Texas. Southern Union has allocated a significant portion (approximately 30% to 40%) of its corporate overhead costs to Missouri Gas Energy. Some of the corporate overhead departments Southern Union allocated to MGE were Chairman and CEO, President, Treasury, Engineering, Accounting and Finance, Human Resources, Legal,

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas)
Energy's Purchased Gas Adjustment) Case No. GR-2003-0330
(PGA) Factors to be audited in)
its 2002-2003 Actual Cost)
Adjustment) ORIGINAL

DEPOSITION OF DAVID KIRKLAND,

produced, sworn and examined on Thursday, April 15, 2004,
at the offices of MGE, 3420 Broadway, Kansas City, Jackson
County, Missouri, before:

NICOLE M. CALCARA, C.S.R.

and

JENNIFER EASTABROOKS, C.S.R.

for

CROSS REPORTING SERVICE, INC
110 South Main Street - Old Town
Independence, Missouri 64050

Notaries Public within and for the State of Missouri.

Taken on behalf of the Public Service Commission,
State of Missouri.

APPEARANCES:

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(Appearances Continued)

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 Ms. Lesa Jenkins
 5 Mr. Dave Sommerer
 Ms. Anne Allee
 6 Mr. Rob Hack
 Mr. Michael T. Langston
 7

8 S T I P U L A T I O N S

9 It is hereby stipulated and agreed by and
 between parties and their counsel that this deposition may
 10 be taken at this time in shorthand and thereafter typed;
 this transcript is to be regularly filed in the case with
 11 the same force and effect as if notice had been given,
 subject to objections as to competency, relevancy and
 12 materiality.

13 It is further stipulated and agreed by and
 between parties herein that presentment to the attorneys
 of record of a copy of this deposition shall be considered
 14 submission to the witness for his signature within the
 meaning of Missouri Rules of Civil Procedure, but shall in
 15 no way be considered as a waiver of the witness'
 signature; and will be filed with the court, to be signed
 16 by the witness at any time before or at trial of this
 case; and if not signed by time of trial, may be used as
 17 though signed.

18 * * * * *

19 I N D E X

20		PAGE
21	Examination by Mr. Berlin	3
22	Examination by Mr. Duffy	70

1 providing any additional consultant work, and, if you
2 could -- if you recall, what month each of those
3 changes occurred in. And we'll just kind of break it
4 down from there.

5 A. Bob, are you asking me to talk about the changes that
6 took place from the Austin office to the Kansas City
7 office, is that your question?

8 Q. My question does encompass changes that would include
9 the Austin office, as I understand that there are
10 many -- you had employees performing job -- or
11 natural gas planning and purchasing functions. In
12 other words, of those individuals working under your
13 supervision, what employee changes occurred in MGE
14 natural gas planning and purchasing functions from
15 your start date through May of 2003?

16 A. Okay. Well, for the folks under my supervision and
17 during this time they were John Hayes, Ben Harner,
18 Julie Burton -- and Greg Hayes, I believe he came on
19 in May. So we initially hired John Hayes and Ben
20 Harner, and in January of 2003, and I don't recall
21 their hire dates, but we immediately went to -- after
22 some orientation, we immediately went to Austin,
23 Texas, and began cross training with the employees
24 down there. Now, I had directed John Hayes to work
25 with Liz Smith and Verlenne Monroe. Liz Smith was

1 the contract administrator in Austin, and Verlenne
2 Monroe was, I think her title was something with
3 respect to planning. Ben Harner began working with
4 Sandy Ready because she had a different function,
5 which was scheduling. And so initially that was the
6 responsibility I gave those people. So we spent two
7 or three weeks -- the term was different -- down in
8 Austin, Texas, working with the Austin, Texas,
9 employees, learning about the supply functions and
10 the contract administrative functions and scheduling
11 functions. Since your question is specific to
12 planning, as I recall --

13 Q. Planning and purchasing functions, right.

14 A. And purchasing. So -- and during that time, I mean,
15 the purchasing function was administered primarily by
16 Liz Smith. She did the supply planning for Missouri
17 Gas Energy and she nominated volumes that were
18 anticipated under monthly supply plans under the Duke
19 contract that we had in place at the time, as well as
20 a couple of other long term purchase agreements that
21 were in effect at that time with Amoco and Occidental
22 Petroleum. So what we did at that time was we
23 learned what the functions were, we learned the
24 processes, we became familiar with the monthly
25 planning cycle and basically we absorbed all that

1 information and implemented those practices here in
2 the Kansas City office for Missouri Gas Energy. So
3 really in the transition I don't see that there was
4 any change during that time period. We went through
5 a -- the transition period was over a three-month
6 time frame, January, February, March.

7 Q. Did Liz Smith and Verlenne Monroe and Sandy Ready
8 report to you?

9 A. No.

10 Q. You had indicated that you hired two individuals in
11 January of 2003?

12 A. Uh-huh.

13 Q. If you could restate their names.

14 A. Ben Harner and John Hayes.

15 Q. Did one of them leave employment with MGE?

16 A. Uh-huh, Ben Harner did.

17 Q. When did he leave?

18 A. He was only with us for a couple of weeks or three
19 weeks -- well, I think he was only in training for a
20 couple weeks and his employment terminated sometime
21 in March -- actually I don't recall. He wasn't with
22 us very long. Probably about a month.

23 Q. How did that change the duties of the other
24 employees?

25 A. Well, what I did in response to Jim's -- I mean,

1 A. Well, as I recall we were -- it was probably sometime
2 in the February-March time frame that we began
3 discussions with -- at least I became involved in the
4 discussions with Art Gelber. I don't know what other
5 discussions had taken place prior to my involvement.

6 Q. Please explain your understanding of the transition
7 agreement between ONEOK and MGE employees for natural
8 gas planning and purchasing.

9 A. Well, my understanding was that initially there was
10 an agreement that this transition would take place
11 over a 60-day time frame and that the ONEOK employees
12 would be fully supportive of our needs to become
13 familiar with the systems and processes and contracts
14 that were in effect at the time of the sale. And so
15 I've already touched on those generically. And we
16 requested a 30-day extension of that agreement
17 because of the -- principally with the issues
18 associated with Ben Harner and his leaving, so that
19 was agreed to, and so we extended the training and
20 transition period for 30 days.

21 Q. Again, can you explain who was doing the training and
22 who each trainer trained?

23 A. Yeah. Sandy Ready was training the folks involved in
24 scheduling. So she worked with Ben Harner and Julie
25 Burton. And John Hayes had a very short exposure to

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Re: Case No. GM-2003-0238

Dear Gentlemen:

I enclose herewith copies of the transcripts of the interviews which took place on February

RECEIVED
MAR 10 2003

UTILITY SERVICES DIV.
PUBLIC SERVICE COMMISSION

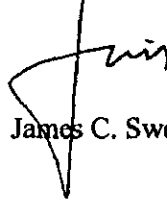
Schedule 4-1

26, 2003 and February 28, 2003 in connection with the referenced matter. The individuals who participated in the interviews have reviewed the transcripts to correct any errors or misstatements and errata sheets with those corrections are attached. Please let me know if you have further changes or corrections.

If you have any questions, please feel free to contact me.

Thank you for your continued assistance and cooperation.

Very truly yours,

A handwritten signature in black ink, appearing to read 'JCS', written over a vertical line.

James C. Swearengen

JCS/lar
Enclosures

ERRATA SHEET
TRANSCRIPT FEBRUARY 28, 2003
CASE NO. GM-2003-0238

Page Number	Line Number	Correction	Reason
		"Oneok" for "One Oak" throughout	Misspelled
		"Panhandle" for "Pan Handle" throughout	Misspelled
		"Sendout" for "send out" throughout	Proper name
		"FERC" for "FERK" throughout	Misspelled
3	3	"Dave Sommerer"	Proper name
4	9	Add "supply" after gas at end of line	Word omitted
4	10	Delete "owned"	Grammatical
4	10	"intrastate" for "interstate"	Wrong word
4	12	"our" for "so"	Wrong word
4	13	Delete "reports"	Grammatical
4	16	Delete "I guess"	Grammatical
6	4	"basis." for "basis"	Grammatical
6	5	Delete "and"	Grammatical
6	5	"Those" for "those"	Grammatical
6	13	"hedge" for "edge"	Misspelled
6	21	"Within our" for "With our"	Grammatical
6	22	Delete "we,"	Grammatical
6	23	"hedge" for "rich"	Wrong word
7	9	"Planalytics" for fundalitics"	Wrong word
7	11	"Planalytics" for "planlities"	Misspelled
8	2	Delete "they had developed"	Grammatical
8	2	"neural" for "narrow"	Wrong word
9	8	"preparation" for "operation"	Wrong word
9	13	"effect" for "affect"	Wrong word
9	25	"Holcomb" for "Wolken"	Misspelled
12	2	"employees. They" for "employees, but the"	Grammatical
12	4	"this month." for "this."	Grammatical
13	15	"think it's"" for "think's"	Grammatical
14	2	"supply and" for "supply transportation"	Grammatical
14	9	Delete "and"	Grammatical
14	15	"are Duke,"	Word omitted
14	16	"Oxy" for "Ducoxy"	Misspelled
14	18	"is" for "had been"	Grammatical
17	20	"but" for "that"	Grammatical
19	13	"historically we have" for	Grammatical

		"historically, shut down and"	
19	22	"to the commission" for "to commission"	Grammatical
24	22	"used Sendout" for "used to send out"	Grammatical
27	4	"we've" for "we"	Grammatical
27	5	"priority" for "prior"	Grammatical
27	5	"purchase" for "purchased"	Grammatical
27	5	Delete "at"	Grammatical
27	6	"the least cost" for "least, cost"	Grammatical
27	19	"Duke" for "new"	Wrong word
32	2	"Union" for "Union's"	Grammatical
32	2	"relied on these" for "relied these"	Grammatical
32	23	"plan" for "titlement"	Wrong word
34	7	"effect" for "affect"	Wrong word
37	5	"contracts" for "contract"	Wrong word
37	23	"Stevens" for "Stephens"	Misspelled
38	14	"measurement" for "management"	Wrong word
39	21	"cites" for "sites"	Misspelled
41	4	"at" for "on"	Grammatical
42	25	"at" for "as"	Grammatical
44	13	Delete "this"	Grammatical
44	13	"using" for "use"	Grammatical
44	16	"FERC" for MRDC"	Misspelled
44	18	"began" for "becomes"	Grammatical
45	4	"Fleischman & Walsh" for "Fleisch Manuel"	Misspelled
45	22	"When" for "Why"	Wrong word
47	18	"rooms" for "rings"	Wrong word
48	15	"regarding, or" for "regarding or"	Grammatical
48	16	"regarding, Panhandle" for "regarding Pan Handle"	Grammatical
52	7	"Stevens" for "Stephens"	Misspelled
52	24	"MGE's" for "MGEs"	Grammatical
52	24	"Central" for "central"	Proper name
53	9	"these things" for "the OPC"	Wrong word
55	12	Add "The two opportunities I had were for employment outside Southern Union. I had indicated to Southern Union that I was not interested in a move to Kansas City. Therefore, I did not consider, personally a job solely at MGE as a job alternative to me. It is my impression that, should I have been	Additional clarifying language

		interested, I probably could have retained the MGE supply job, with some reduction in salary."	
56	21	"General" for "Internal"	Wrong word
56	22	"Accounting, finance" for "Accounting finance"	Grammatical
57	1	"Graf" for "Graph"	Wrong word
60	3	"this is" for "this"	Grammatical
60	12	"Noack" for "Nowak"	Misspelled
60	12	"accounting" for "county"	Wrong word
60	25	"PGA" for "PTA"	Misspelled

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BEFORE THE MISSOURI PSC
STATE OF MISSOURI

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INFORMAL TELEPHONE CONFERENCE
SOUTHERN UNION COMPANY-MISSOURI PSC NO. GM-2003-0238

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February 28, 2003
Brydon, Swearngen, England
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A P P E A R A N C E S

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3

FOR SOUTHERN UNION COMPANY:

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Dave Kirkland, Missouri Gas Energy (VIA TELEPHONE)
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Jim Swearngen, Attorney at Law

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FOR THE OFFICE OF THE PUBLIC COUNSEL:

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Jim Busch, OPC (VIA TELEPHONE)
Doug Micheel, OPC (VIA TELEPHONE)

16

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21 understand, and this is Rob Hack, how this is
22 advancing the inquiry related to the Pan Handle
23 transaction.

24 We're more than happy to have these
25 discussions and I want to introduce Dave to you all

00017

1 after he gets through the transition and we get all
2 that information handled, but -- and I'm not trying
3 to be obstructive here, but I'm really struggling
4 with this.

5 MR. SCHALLENBERG: Rob, this is Bob
6 Schallenberg. One of the things that in terms of
7 trying to evaluate any possible detriments from you
8 buying Pan Handle is to look at their risk
9 assessment, the major functions that it would impact
10 on MGE, and one of those is gas supply, and then
11 looking at what the staff knew about gas supply.

12 There seem to be some major changes
13 from what existed historically, and I felt that it
14 was important for us before we file in a couple of
15 weeks for us to know, be cognizant of what's going on
16 at MGE and what its gas supply function is so that
17 when we're evaluating it for detriments, we have a
18 good baseline to look at.

19 MR. HACK: And again, I'm not trying to
20 be argumentative that these changes are in place, are
21 going to occur regardless of what happens with Pan
22 Handle.

23 MR. SCHALLENBERG: I guess we can argue
24 about relevance. If you don't want people to answer,
25 they won't answer.

00018

1 MR. HACK: I don't. I know Dave has to
2 leave in about an hour or maybe a little bit less, so
3 you know, we want to be cooperative, but I really --
4 I'm struggling with this. Let's keep going, but.

5 MR. FRANSON: Rob, this is Robert
6 Franson I think maybe we're taking a little bit wider
7 view of the whole transaction and what's relevant
8 than you are, and I think that's a fair difference,
9 but if we can continue, we would certainly welcome
10 that opportunity.

11 MR. HACK: Yeah, let's go ahead and go.
12 I'm not trying to get in the way.

13 MR. SOMMERER: Okay. This may be a
14 related question, but I'll go ahead and ask it, and
15 Rob, you can go ahead and let Mr. Kirkland know if
16 you think that's inappropriate.

17 MR. HACK: No, I want to answer the
18 question, so let's go ahead and go.

19 MR. SOMMERER: Oh, okay. All right.
20 Should I repeat my question?

21 MR. KIRKLAND: Would you, please?

22 MR. SOMMERER: Mr. Kirkland, what kind
23 of information has been provided to you to perform
24 your duties there at MGE in terms of gas supply
25 contracts and any summaries or constraints in those

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1 contracts, storage plans, operating plans, things of
2 that nature?

3 MR. KIRKLAND: Okay. Starting with our

4 contracts, I have access to all of our gas supply
5 contracts with Oxy, Amoco, and Duke. I also have
6 access to the contracts we have with Southern Star,
7 Pan Handle, Kansas City Power Line. I meant to say
8 Kansas City Pipeline, so.

9 I have had numerous discussions with,
10 you know, the employees of Southern Union, now
11 employees of One Oak, and also with Mike Langston,
12 with respect to how the business has been conducted
13 historically, shut down and gone through three
14 planning cycles now for our supply plan and for gas
15 supply and storage operations during the winter
16 months.

17 We've been looking forward to how our
18 supply and storage plans will impact operations going
19 forward this spring and the summer. We are, at this
20 time, I mean, I've also been provided a copy of the
21 reliability report that was prepared, and I believe
22 submitted to commission last year, which was quite
23 informative, how the company views its position with
24 respect to demand, demand on peak day, how that's
25 calculated, some of the sensitivities there.

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1 Also with respect to supply capacity and the adequacy
2 of the capacity at this time, so that was a very
3 informative and good document to review.

4 MR. SOMMERER: Mr. Kirkland, where are
5 the Gas Department files currently located?

6 MR. KIRKLAND: On the third floor of
7 the office building here at 3420 Broadway.

8 MR. SWEARENGEN: That's in Kansas City?

9 MR. KIRKLAND: Yes, pardon me, that's
10 in Kansas City.

11 MS. JENKINS: This is Lisa Jenkins.
12 Question for Mr. Kirkland. When you reviewed that
13 reliability information, did you also get a copy of
14 the e-mail that staff sent listing its concerns with
15 that reliability report?

16 MR. KIRKLAND: I've not seen that, no.
17 You know, I have not gone through all of the files.
18 There are numerous files that are associated with our
19 Missouri Gas Energy business, and I mean, that's
20 something yet to happen.

21 MR. SOMMERER: This is Dave Sommerer
22 again. Do those Gas Department files include the
23 natural gas contracts, those files that are in Kansas
24 City now?

25 MR. KIRKLAND: Yes, they do.

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1 MR. SOMMERER: Do they also include the
2 gas invoices?

3 MR. KIRKLAND: Yes, they do. Let me,
4 for clarification. Some of those files are still in
5 transit, so you know, when you say files are in
6 Kansas City now, I expect that they will either all
7 be here by tomorrow or early next week.

8 MR. LANGSTON: This is Mike Langston.
9 If I could maybe insert just a comment to clarify.
10 When we sold the Texas properties, part of the action
11 after the sale was to take all of the -- at least
12 gather all of the boxes that were in our storage