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| Exhibit No: | _____ |
| Issues: | Transaction and Proposed Conditions |
| Witness: | Robert J. Hack |
| Sponsoring Party : | Southern Union Company |
| Case No: | GM-2011-0412 |
| Date Testimony Prepared: | October 28, 2011 |

MISSOURI PUBLIC SERVICE COMMISSION

SOUTHERN UNION COMPANY

CASE NO. GM-2011-0412

DIRECT TESTIMONY OF

ROBERT J. HACK

Jefferson City, Missouri

October 28, 2011

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DIRECT TESTIMONY OF ROBERT J. HACK
CASE NO GM-2011-0412
October 2011

Q: Would you please state your name and business address.

A: My name is Robert J. Hack and my business address is 3420 Broadway, Kansas City, Missouri 64111.

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

A: I am the Vice President - Chief Operating Officer of Missouri Gas Energy ("MGE"), a division of Southern Union Company ("Southern Union").

Q: Please describe your educational background.

A: I graduated from Southern Methodist University with a Bachelor of Arts in English Literature and from the University of Kansas School of Law with a law degree.

Q: Please describe your professional background.

A: I have been in my present position since January of 2006. Prior to being named Chief Operating Officer of MGE, I served as MGE's Vice President of Pricing and Regulatory Affairs beginning in October of 1998. I joined MGE in September of 1996 as a Senior Attorney.

Prior to my employment with MGE, I worked in the General Counsel's Office of the Missouri Public Service Commission ("Commission"), beginning in February of 1989, serving in various positions including Assistant General Counsel, Deputy

1 General Counsel and General Counsel. My employment with the Commission
2 ceased in July, 1996.

3
4 Since 1989, my career has been focused on regulated public utilities generally
5 and, since 1996, on MGE as a regulated natural gas local distribution company
6 (“LDC”).

7
8 **Executive Summary**

9 **Q: What is the purpose of this testimony?**

10 A: The purpose of my testimony is to provide support for the Amended Application
11 (“Application”) that was filed by Southern Union, Sigma Acquisition Corporation
12 (“Sigma”) and Energy Transfer Equity, LP (“ETE”) on September 15, 2011. The
13 Application seeks an order authorizing Southern Union to take certain actions,
14 the results of which will, among other things, (i) permit ETE to acquire Southern
15 Union for, as of July 19, 2011, \$9.4 billion, including \$5.7 billion in cash and ETE
16 common units related to acquisition of 100% of the issued and outstanding
17 shares of Southern Union common stock and including assumed debt; and (ii)
18 effectuate a merger transaction whereby Southern Union will become a direct
19 wholly owned subsidiary of ETE (the “Transaction”).

20
21 In that regard, I will provide certain information about Southern Union, its MGE
22 operations in the State of Missouri and other information as is pertinent to the
23 Transaction described in the Application. Among other things, I will provide an

1 explanation as to why the Transaction will not be detrimental to the public interest
2 and, consequently, why it should be approved by the Commission subject to
3 conditions proposed in the Application.
4

5 **Southern Union Company and Missouri Gas Energy**

6 **Q: Please provide a description of Southern Union.**

7 A: Southern Union is a Delaware Corporation, in good standing in all respects, with
8 its principal office and place of business at 5444 Westheimer Road, Houston,
9 Texas 77056. Generally, Southern Union is engaged in the transportation,
10 storage, gathering, processing and distribution of natural gas. It operates one of
11 the nation's largest natural gas pipeline systems with more than 20,000 miles of
12 gathering and transportation pipelines and one of North America's largest
13 liquefied natural gas import terminals. Southern Union also serves over 500,000
14 industrial, commercial and residential end-use customers through two local
15 distribution companies in Missouri and Massachusetts.
16

17 **Q: Please describe Southern Union's Missouri operations.**

18 A: Through its MGE operating division, Southern Union is a public utility engaged in
19 the distribution and sale of natural gas to the public and conducts such business
20 in Missouri in those areas of the state certificated to it by the Commission. MGE
21 provides natural gas service to approximately 500,000 customers in nearly 30
22 counties in the State of Missouri.
23

1 **Q: Is Southern Union regulated by the Commission?**

2 A: Yes. Given the nature of its operations, Southern Union is a “gas corporation”
3 and a “public utility” as those terms are defined in §386.020(18) and (43) RSMo
4 2000. Consequently, it is subject to the supervision of the Commission as
5 provided by law.

6

7 **Q: Is Southern Union authorized to do business in this state as a foreign**
8 **corporation?**

9 A: Yes. Attached hereto as Schedule RJH-1 is a copy of Southern Union’s
10 Certificate of Authority to do business in this state as a foreign corporation.

11

12 **Q: Has Southern Union registered its fictitious name, MGE, with the Missouri**
13 **Secretary of State?**

14 A: Yes. Attached hereto as Schedule RJH-2 is a copy of Southern Union’s
15 Registration of Fictitious Name as MGE.

16

17 **Q: Does Southern Union have any pending action or final unsatisfied**
18 **judgments or decisions against it from state or federal regulatory agencies**
19 **or courts which involve customer service or rates occurring within the**
20 **three years immediately preceding the filing of the Application?**

21 A: No.

22

1 **Q: Does Southern Union have any overdue Commission annual reports or**
2 **assessment fees?**

3 A: No.

4
5 **Description of the Proposed Transaction**

6 **Q: Would you please explain the nature of the Transaction which is the**
7 **subject of the Application in this case?**

8 A: The specifics of the Transaction and the principal agreements, including a
9 description of the merger premium and a general description of how MGE's
10 operations fit into ETE's business, will be addressed by ETE witness Martin
11 Salinas, Jr. Generally, pursuant to the terms and conditions of that certain
12 definitive Second Amended and Restated Agreement and Plan of Merger, as
13 amended by Amendment No. 1 to Agreement and Plan of Merger executed on
14 September 14, 2011 among Southern Union, ETE and Sigma (the "Merger
15 Agreement"), in order to effectuate the Transaction shareholders of Southern
16 Union can elect to exchange their shares of common stock for either \$44.25 in
17 cash or 1.000 x ETE common unit, subject to proration. In no event shall ETE be
18 required to pay cash for more than sixty percent (60%) of the issued and
19 outstanding shares of Southern Union or issue ETE common units in respect of
20 more than fifty percent (50%) of the issued and outstanding shares of Southern
21 Union common stock.

1 **Q: Are there any other notable aspects concerning the Transaction?**

2 A: Yes. Incident to the Merger Agreement, Energy Transfer Partners, L.P. (“ETP”)
3 and ETE are parties to a definitive Amended and Restated Agreement and Plan
4 of Merger, as amended by Amendment No. 1 to Agreement and Plan of Merger
5 executed on September 14, 2011 (the “Citrus Merger Agreement”). Pursuant to
6 the Citrus Merger Agreement, CrossCountry Energy, LLC (“CrossCountry”) (which
7 along with Southern Union, PEPL Holdings, LLC (“PEPL Holdings”) and Citrus
8 ETP Acquisition, L.L.C. (“Citrus ETP”) will become parties by joinder at a time
9 immediately prior to the merger transaction). CrossCountry will be merged with
10 and into Citrus ETP with CrossCountry as the surviving entity (the “Citrus
11 Merger”).

12
13 Additionally, as part of the financing of the Citrus Merger, Southern Union will,
14 immediately prior to the Citrus Merger, contribute its ninety-nine percent (99%)
15 interest in Panhandle Eastern Pipeline Company, LP (“Panhandle”) and its 100
16 percent (100%) membership interest in Southern Union Panhandle, LLC to PEPL
17 Holdings. PEPL Holdings will guarantee certain indebtedness of ETP related to
18 the Citrus Merger. The guarantee will be non-recourse to Southern Union.

19
20 **Q: Will the proposed Transaction affect Southern Union’s status as a**
21 **regulated gas corporation in the State of Missouri?**

22 A: No. Southern Union will be a wholly-owned subsidiary of ETE, but it will remain a
23 Missouri-regulated gas corporation after the Transaction is completed.

1 **Q: Why have Southern Union, Sigma and ETE filed the Application?**

2 A: As noted above, the Transaction involves a merger of Sigma with and into
3 Southern Union with Southern Union continuing as the surviving corporation.
4 Missouri law (§393.190.1 RSMo) requires that a merger of the works or system
5 of a gas corporation with any other corporation must be authorized by the
6 Commission. The Application has been filed to comply with this requirement.

7
8 **Q: Has the Agreement been approved by the Board of Directors of Southern**
9 **Union?**

10 A: Yes. A copy of the resolutions of the Board of Directors of Southern Union
11 approving the Agreement and the Transaction and authorizing the execution of
12 the Agreement is attached hereto as Schedule RJH-3.

13
14 **Q: What is your understanding of the issue that is presented for the**
15 **Commission's determination concerning the Transaction as described in**
16 **and presented by the Application?**

17 A: It is my understanding that the Commission must make a determination of
18 whether the Transaction is detrimental to the public interest. Specifically, it is my
19 understanding that the Commission must approve the Application unless it finds
20 there is a net detrimental effect on the public interest.

1 **The Transaction is Not Detrimental to the Public Interest**

2 **Q: Is the proposed Transaction detrimental to the public interest?**

3 A: No. The Transaction will have no adverse effect on the customers of MGE with
4 respect to rates, service or otherwise. Southern Union's Missouri customers will
5 see no change in their day-to-day utility service or rates and they will continue to
6 be served safely, effectively and efficiently without interruption. All natural gas
7 commodity, transportation and storage costs that are proposed to be passed on
8 to MGE's customers will continue to be subject to review by the Commission
9 through the purchase gas adjustment/actual cost adjustment process included in
10 MGE's tariffs. All non-gas costs proposed to be passed on to MGE's customers
11 will also continue to be subject to the Commission's review. The day-to-day
12 operations of MGE in Missouri will continue as they have in the past.

13
14 **Q: Does MGE presently have a rate case on file?**

15 A: No. While MGE is constantly reviewing its financial performance to ensure that
16 its revenues keep pace with operational cost increases that are occurring
17 irrespective of the Transaction, there are no current plans to file a rate case other
18 than the filing that is likely to occur by September 18, 2013, as required by law, to
19 permit MGE to continue utilizing its infrastructure system replacement surcharge.
20 Moreover, Southern Union has committed that retail distribution rates for MGE
21 ratepayers will not increase as a result of the Transaction.

1 **Q: You mentioned previously that Southern Union will become a wholly-**
2 **owned subsidiary of ETE. Will that relationship have any adverse impact**
3 **on Southern Union's creditworthiness?**

4 A: No. As of December 31, 2010, Southern Union's debt was rated BBB- by Fitch
5 Ratings, Baa3 by Moody's Investor Services and BBB- by Standard & Poors.
6 ETE has stated that it will take commercially reasonable steps to maintain the
7 current investment grade credit rating of Southern Union. ETE witness Martin
8 Salinas, Jr. has filed direct testimony addressing the steps it plans to take with
9 respect to this issue.

10
11 **Q: Will the Transaction have any impact on the tax revenues of the political**
12 **subdivisions in which any of the structures, facilities or equipment of**
13 **Southern Union is located?**

14 A: No. Southern Union will remain the owner of MGE's LDC network and properties
15 after the close of the Transaction.

16
17 **Q: Will the Transaction have any effect on the Commission's authority to**
18 **regulate MGE's operations?**

19 A: No. The Commission's jurisdiction over MGE will not change. The Commission
20 will retain full regulatory supervision of MGE after the Transaction is completed.
21 The Transaction will not restrict the Commission's access to Southern Union's
22 books and records as is reasonably necessary to carry out the Commission's
23 responsibilities with respect to MGE's operations, including proper audits.

1 **Q: Will an order approving the Application affect the ratemaking treatment to**
2 **be given the Transaction in MGE's next rate case?**

3 A: No, the Commission's approval of the Application will not constitute a finding by
4 the Commission of the value of the Transaction for ratemaking purposes.
5 Accordingly, Southern Union has no objection to the Commission reserving the
6 right to consider the ratemaking treatment afforded the Transaction including the
7 effects on cost of capital at a later time in any appropriate proceeding. Southern
8 Union has committed that it will not recommend an increase to the cost of capital
9 for MGE as a result of the Transaction.

10
11 **Q: Are there any other steps the Commission can take to ensure that the**
12 **Transaction as proposed by the applicants has no detrimental impact on**
13 **MGE's customers?**

14 A: Although it is my view the Transaction is not detrimental to the public interest for
15 the reasons I just stated, as described in the Application and outlined in a
16 document attached to my testimony and marked as Schedule RJH-4 (and which
17 had been included with the Application as Appendix 6), Southern Union and ETE
18 are prepared to agree to extensive additional conditions. The conditions set forth
19 in Schedule RJH-4 include certain customer service performance measures,
20 customer service operating procedures, structural and financial assurances and
21 accounting, operational, and recordkeeping commitments, the purpose of which
22 are to provide additional assurances to the Commission that the Transaction as

1 proposed by Southern Union, Sigma and ETE will not have any detrimental effect
2 on MGE's customers.

3
4 **Q: What is the source of the conditions that are being proposed by Southern**
5 **Union?**

6 A: Generally, the proposed conditions set forth in Schedule RJH-4 are drawn from
7 conditions previously agreed to by Southern Union and approved and adopted by
8 the Commission in the context of number of Commission cases. Specifically, the
9 cases I refer to are Case Nos. GM-2000-43, GM-2000-500, GM-2000-502, GM-
10 2000-503, GM-2003-0238 and GO-2005-0019.

11
12 **Q: Would you please summarize the elements of your Schedule RJH-4?**

13 A: Yes. Section 1 addresses customer service considerations including customer
14 service performance measures, MGE response to customer service measures,
15 customer complaints/inquiries to the Missouri Public Service Commission Staff
16 and customer service operating procedures. MGE currently tracks these
17 customer performance measures and complies with these procedures and
18 reporting obligations as a routine operational matter.

19
20 **Q: Southern Union has proposed certain business operating conditions under**
21 **Sections 2 and 3 of Schedule RJH-4. Are these new matters?**

22 A: Only in the sense that the conditions address Southern Union's relationship with
23 ETE. The general framework has been carried over from that put in place in the

1 context of Case No. GM-2003-0238 when Southern Union acquired its ownership
2 interest in Panhandle. It has been modified somewhat to reflect the fact that
3 Southern Union is not the acquiring entity. It is, rather, the entity being acquired.
4 As such, certain features of the Panhandle Stipulation and Agreement, such as
5 the prohibition on providing cash to the acquired entity, are not appropriate in the
6 context of this Transaction.

7
8 **Q. Please discuss Sections 2 and 3 of Appendix 6 to the Application and**
9 **explain how those conditions will insulate MGE from ETE's business.**

10 A. Section 2.A. requires that Southern Union will be owned as a separate subsidiary
11 of ETE unless otherwise approved by the Commission. This provides assurance
12 that MGE's business will be structurally separate from ETE's business unless
13 otherwise approved by the Commission.

14
15 Section 2.B. prohibits Southern Union from transferring to ETE (or any subsidiary
16 thereof) assets necessary and useful in providing service to MGE's Missouri
17 customers without Commission approval. This provides assurance that assets
18 necessary and useful in providing service to MGE's Missouri customers will not
19 be transferred to ETE or any ETE subsidiary without Commission approval.

20
21 Section 2.C. obligates Southern Union to use its best efforts to insulate MGE
22 from any adverse consequences from its other operations or the activities of any
23 of its affiliates. This provides assurance that Southern Union will have an

1 ongoing duty to insulate MGE from adverse consequences from its other
2 operations or those of its affiliates.

3
4 Section 2.D. requires Southern Union to certify compliance with the provisions of
5 Section 2 on a quarterly basis. This provides assurance that Southern Union is
6 regularly reviewing these commitments and assessing compliance therewith.

7
8 Section 3.A. requires Southern Union to ensure that the Transaction will have no
9 adverse effect on MGE's budget and funds to meet MGE's capital needs,
10 including but not limited to service line and main replacement programs, and re-
11 affirms Southern Union's commitment to MGE's current safety line replacement
12 program as approved by the Commission in Case No. GO-2002-0050. This
13 provides assurance that MGE's capital needs, including but not limited to those
14 devoted to compliance with its ongoing safety line replacement program, will not
15 be adversely affected by the Transaction.

16
17 Section 3.B. requires Southern Union to:

- 18 • treat the acquisition premium paid for it in this Transaction "below the line"
19 for ratemaking purposes in Missouri and not seek to recover such
20 acquisition premium in retail distribution rates from MGE customers;
- 21 • not seek rate recovery or recognition of any acquisition premium (including
22 transaction costs) in connection with this Transaction through an

1 acquisition savings adjustment (or a similar adjustment) in any future
2 general rate proceeding in Missouri.

3 This provides assurance that the Commission's historical practice of disallowing
4 rate recovery of acquisition premiums will be followed with respect to this
5 Transaction.

6
7 Section 3.C. provides that joint and common costs allocated to MGE for
8 purposes of setting retail distribution rates will not increase as a result of the
9 Transaction above the levels authorized by the Commission in MGE's most
10 recent general rate proceeding (Case No. GR-2009-0355). This provides
11 assurance that corporate support costs allocated to MGE for ratemaking
12 purposes will not increase as a result of this Transaction.

13
14 Section 3.D. provides for the retention of certain documentation pertaining to the
15 Transaction. This provides assurance that certain data needed to evaluate the
16 impact of the Transaction on MGE will be available.

17
18 Section 3.E. requires Southern Union to segregate and record separately all
19 acquisition costs related to the Transaction. This provides assurance that certain
20 data needed to evaluate the impact of the Transaction on MGE will be available.

21
22 Section 3.F. requires Southern Union to maintain records listing its employees
23 whose costs are allocable to Missouri jurisdictional operations, and the amount

1 and type of work performed in connection with the Transaction. This provides
2 assurance that certain data needed to evaluate the impact of the Transaction will
3 be available.

4
5 Section 3.G. requires Southern Union to file verified journal entries reflecting the
6 recording of the Transaction on Southern Union's books and records within forty-
7 five days of closing. This provides assurance that the Commission will know that
8 the closing has occurred and how that closing has been reflected on Southern
9 Union's books.

10
11 Section 3.H. precludes Southern Union from recommending an increase to the
12 cost of capital for MGE as a result of this Transaction. This provides assurance
13 that the cost of capital used for establishing MGE's retail distribution rates in
14 Missouri will not increase as a result of this Transaction.

15
16 Section 3.I. requires Southern Union to provide information related to the impact
17 of the Transaction on Southern Union's structure, organization and costs. This
18 provides assurance that information related to the impact of the Transaction on
19 corporate administrative and general allocations to MGE will be available.

20
21 **Q: Please explain Section 4 of Schedule RJH-4.**

22 A: These provisions address certain rules to govern the relationship of MGE and the
23 services it takes from interstate and intrastate natural gas transportation

1 pipelines, including affiliated pipeline companies. These obligations, too, are
2 already in place as a result of the Commission's approval of the Stipulation and
3 Agreement in Case No. GM-2003-0238. One particular item in that agreement
4 should be noted, however. In that Agreement, MGE agreed, for purposes of
5 calculating its purchase gas adjustment and actual cost adjustment rates, to
6 maintain at least the same percentage discount it was receiving from PEPL in
7 2003. MGE has requested relief from this provision in Case No. GE-2011-0282,
8 asserting that circumstances have changed such that the condition is no longer
9 reasonable or necessary.

10
11 **Q: Do you have any observations about Sections 5 through 9 of Schedule**
12 **RJH-4?**

13 A: These matters provide additional commitments and assurances to support a
14 finding by the Commission that the proposed Transaction will not be detrimental
15 to the public interest.

16
17 **Q: Please explain Section 10 of Schedule RJH-4.**

18 A: Section 10 (Commitments are Missouri Jurisdictional) is intended to limit the
19 obligations and commitments set forth in Schedule RJH-4 to Missouri
20 jurisdictional regulatory activities. This provision, too, is already in place as a
21 result of the Commission's approval of the Stipulation and Agreement submitted
22 in Case No. GM-2003-0238 and the Stipulation and Agreement submitted in
23 Case No. GO-2005-0019.

1 **Concluding Observations**

2 **Q: Should the Commission approve the Application as filed by Southern**
3 **Union, Sigma and ETE?**

4 A: Yes. The Transaction as embodied by the Merger Agreement will have no
5 detrimental impact on Southern Union's MGE customers. As noted above, the
6 Transaction will have no impact on customer rates or service and customers will
7 continue to be served effectively and efficiently after closing. The Transaction
8 will be entirely transparent to them. There will be no impact on the tax revenues
9 of the counties in which MGE currently has operations and the Commission's
10 jurisdiction over MGE's operations will not change. Additionally, Southern Union
11 and ETE have proposed an extensive list of additional reporting requirements
12 and financial, recordkeeping and operational commitments that will further
13 protect Southern Union's MGE customers.

14
15 **Q: Does this complete your direct testimony?**

16 A: Yes.
17
18
19
20
21
22
23