

Exhibit No.: _____
Issues: PEPL Market Conditions
Witness: Kurt Gregson
Sponsoring Party: Missouri Gas Energy
Case No.: GE-2011-0282
Type of Exhibit: Direct Testimony
Date: October 26, 2011

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GE-2011-0282

DIRECT TESTIMONY OF

KURT GREGSON

Jefferson City, Missouri

October 2011

Table of Contents

INTRODUCTION	1
PURPOSE.....	2
TRANSPORTATION AND STORAGE MARKET.....	3

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OCTOBER 2011

INTRODUCTION

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2

3 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
4 **ADDRESS?**

5 A. My name is Kurt Gregson and my business address is 3420 Broadway, Kansas
6 City, Missouri 64111.

7

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

9 A. I am employed by Missouri Gas Energy, a division of Southern Union Company
10 (MGE or Company), as Director of Gas Supply.

11

12 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF GAS**
13 **SUPPLY?**

14 A. The primary responsibilities of this position include a) the planning and
15 acquisition of a supply and transportation/storage capacity portfolio to provide
16 reliable gas service to MGE's customers; b) the management of that supply and
17 capacity portfolio to minimize cost to customers; and c) regulatory responsibilities
18 associated with these supply/capacity acquisition and management
19 responsibilities.

20

21 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
22 **EXPERIENCE.**

1 A. I received a Bachelor of Science with a major in Petroleum Engineering
2 Technology from the University of Oklahoma State in Stillwater, OK in 1984.
3 Upon graduation, I was employed by Western Company of North America. In
4 May of 2011, I started my employment with MGE.

5
6 **Q. PLEASE SUMMARIZE YOUR EXPERIENCE IN THE ENERGY**
7 **INDUSTRY.**

8 A. I have more than 25 years of experience in the energy industry. I have worked
9 with a variety of companies in energy supply departments, including nine years in
10 the electric industry in a Fuels capacity (Seminole Electric Cooperative – Tampa,
11 FL and Kansas City Power & Light – Kansas City, MO), gas control (Panhandle
12 Eastern Pipe Line – Kansas City, MO), transportation (Westar – Topeka, KS),
13 marketing (Westar – Topeka, KS) and trading (Aquila – Kansas City, MO). I
14 started my current position as Director Gas Supply with MGE in May, 2011.

15 **PURPOSE**

16
17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
18 **PROCEEDING?**

19 A. To explain what discounts are, and are not, available in the Panhandle Eastern
20 Pipeline Company (“PEPL) transportation and storage markets.

21

22

1

2

TRANSPORTATION AND STORAGE MARKET

3

4 **Q. ARE YOU FAMILIAR WITH THE PEPL TRANSPORTATION AND**
5 **STORAGE MARKETS?**

6 A. Yes.

7

8 **Q. HOW ARE YOU FAMILIAR WITH THESE MARKETS?**

9 A. In addition to my many years of experience in this industry, I have reviewed the
10 contracts entered into by MGE and PEPL. I have also familiarized myself with
11 the transportation and storage contracts entered into between PEPL and its other
12 customers. Specifically, I reviewed MGE's previous contracts with PEPL as well
13 as recent PEPL terms with other local distribution companies ("LDCs").

14

15 **Q. WHAT HAVE YOU CONCLUDED IN REGARD TO PEPL DISCOUNTS?**

16 A. Over the past twenty years, when unsubscribed capacity on PEPL's system was
17 more plentiful, its forward-haul transportation service was significantly
18 discounted, even during the winter season, when reliability requirements for
19 LDCs like MGE are most critical given the seasonality of LDCs heavily
20 residential demand.

21

22 **Q. WHAT HAS HAPPENED TO PEPL'S UNSUBSCRIBED CAPACITY**
23 **OVER THAT TIME PERIOD?**

24 A. PEPL's unsubscribed pipeline capacity began to shrink in the late 1990's through
25 early-2000's and market conditions changed. As a result, PEPL's transportation

1 capacity became more valuable and, with very few exceptions, PEPL renegotiated
2 customer contracts at maximum tariff rates as they came up for renewal.
3

4 **Q. ARE THERE CURRENTLY ANY DISCOUNTS PROVIDED ON PEPL?**

5 A. Yes. However, there are not discounts for the services that MGE needs and uses.
6 Currently, PEPL transportation agreements with discounts are predominantly for
7 secondary deliveries and receipts or for summer time power generation load
8 (June-September), which are services that are not similar to the service used by
9 MGE. MGE requires primary receipt to primary delivery point on a year-round
10 basis. Because secondary service is not guaranteed, it runs the risk of being
11 interrupted in peak conditions and cannot be relied upon to provide winter time
12 deliveries. I also have observed that PEPL has entered into a few slightly
13 discounted forward-haul contracts that have been coupled with Trunkline Gas
14 Company capacity. MGE had this combination service from 2005 through 2010
15 but never made use of the Trunkline capacity. Ultimately, the combination of the
16 slightly discounted PEPL forward-haul contract coupled with Trunkline capacity
17 is equivalent (and sometimes slightly more expensive) to the maximum forward-
18 haul contract prices that MGE currently pays. Accordingly, there would be no
19 benefit to MGE's customers for this combination service.
20

21 **Q. HAS MGE RENEGOTIATED ITS PEPL CONTRACTS SINCE 2003?**

22 A. Yes. The transportation and storage contracts MGE held with PEPL in March
23 2003, expired on March 31, 2005, and thereafter MGE and PEPL negotiated and
24 executed two separate five-year transportation agreements (the first commencing

1 April 1, 2005 and expiring March 31, 2010, and the second, currently in effect,
2 commencing April 1, 2010, which will expire March 31, 2015). MGE and PEPL
3 also negotiated two separate storage deals (the first commencing April 1, 2005
4 and expiring March 31, 2010, and the second, currently in effect, commencing
5 April 1, 2010, which will expire March 31, 2031).

6

7 **Q. WHAT WAS THE PEPL MARKET ENVIRONMENT AT THE TIME OF**
8 **MGE'S LAST CONTRACT RENEWALS?**

9 A. At the time of MGE's most recent contract renewals with PEPL in March 2010
10 and since that date, there have been no primary, year-round discounts given to
11 local distribution companies for PEPL transportation service. Also, PEPL does
12 not currently have any discounts for Field Zone – No Notice Storage, which is the
13 type of storage service that MGE has with PEPL, and which is the type of storage
14 service that LDCs like MGE need to serve highly weather-sensitive customers.
15 Consequently, in its most recent contract negotiations with PEPL (in the context
16 of contracts that were expiring on March 31, 2010), MGE was unable to obtain
17 any such discounts with respect to transportation or storage capacity on PEPL.

18

19 **Q. DID MGE TAKE ANY SPECIAL STEPS IN ASSESSING THE MARKET**
20 **IN REGARD TO ITS STORAGE CONTRACT RENEWAL?**

21 A. Yes. For the storage contract renewal, MGE went through the Right of First
22 Refusal (ROFR) process. Under a ROFR process, the firm capacity under the
23 subject agreement is posted to the pipeline's electronic bulletin board for a 45 day
24 period. During those 45 days, third parties may place bids with the pipeline on

1 the posted capacity. The Shipper has the right to continue firm service by either
2 1) agreeing to pay the maximum applicable rate, or 2) matching the bid which has
3 the greatest economic value if PEPL agrees to a discounted bid. As a result of its
4 ROFR process with PEPL, MGE was forced to match the market demand of a
5 maximum rate and a 21 year contract term to retain the service.

6
7 **Q. ARE YOU FAMILIAR WITH THE CONDITION FROM COMMISSION**
8 **CASE NO. GM-2003-0238 THAT IS THE SUBJECT OF MGE'S**
9 **APPLICATION IN THIS CASE?**

10 A. Yes. One of the conditions contained in the approved Stipulation in Commission
11 Case No. GM-2003-0238 provided as follows:

12 MGE agrees, for purposes of calculating its purchase gas adjustment
13 ("PGA") and actual cost adjustment ("ACA") rates, to maintain at least the
14 same percentage of discount it is currently receiving on Panhandle and
15 Southern Star Central for purposes of transportation and storage costs
16 passed through the PGA clause to MGE's ratepayers as provided in Highly
17 Confidential Appendix 2 hereto.

18
19
20 **Q. IS IT POSSIBLE THAT THE EXISTENCE OF THIS CONDITION WILL**
21 **INFLUENCE MGE'S ACTIONS ON A GOING-FORWARD BASIS?**

22 A. Yes. Kinder Morgan's Pony Express pipeline and PostRock's KPC pipeline, both
23 of which provide transportation service to MGE's service territory, have recently
24 announced that they may convert these natural gas pipelines to oil pipelines.
25 MGE relies on 100,000 Dth/day of capacity on Kinder Morgan's Pony Express
26 pipeline to transport natural gas to its service territory and its unavailability (due
27 to conversion from natural gas to oil transportation service) would require MGE
28 to obtain replacement supply. It is likely that no single pipeline would have

1 sufficient unsubscribed capacity available to replace the entirety of the 100,000
2 lost due to the conversion of Kinder Morgan's Pony Express pipeline. MGE
3 would therefore likely be required to seek replacement capacity from PEPL.
4 However, continued imputation of non-existent discounts for additional service
5 taken by MGE on PEPL would serve to increase the negative financial impact
6 already associated with MGE's service from PEPL. This would distort the
7 decision making process and could encourage MGE to contract for transportation
8 service that may not be as beneficial to its customers as the use of PEPL's non-
9 discounted service.

10
11 **Q. HAVE THERE BEEN CHANGES AT THE FEDERAL ENERGY**
12 **REGULATORY COMMISSION ("FERC") SINCE 2003 THAT PROVIDE**
13 **PROTECTIONS FOR MGE'S CUSTOMERS?**

14 **A.** Yes. Since 2003, there have been several changes in FERC regulations that
15 when applied to business negotiations between MGE and PEPL provide
16 significant protections to MGE customers. Specifically:

- 17 i. The FERC issued Order No. 717 on October 16, 2008, which made
18 a number of fundamental changes to its Standards of Conduct
19 rules. Under those rules, MGE is considered a "marketing
20 affiliate" of PEPL, so PEPL is strictly prohibited from providing
21 preferential treatment or non-public information to MGE that
22 would give it an advantage over its other customers.
23
- 24 ii. Some key aspects of FERC's Standards of Conduct rules are a)
25 non-discrimination (PEPL must treat all customers on a non-
26 discriminatory basis and may not preferentially benefit an affiliate
27 such as MGE), b) no conduit of information (no disclosure of non-
28 public transmission function information or transmission customer
29 information to affiliates like MGE), and c) transparency (PEPL
30 must post any non-public information inadvertently or otherwise
31 made available to affiliates like MGE). Under these rules, PEPL

1 must strictly enforce all tariff provisions and must apply tariff
2 provisions fairly.

- 3
- 4 iii. PEPL is prohibited from providing any price advantages to MGE
5 based on its affiliate relationship under these FERC rules. PEPL
6 may not give undue preference to any person, particularly
7 marketing affiliates like MGE, in matters relating to the sale or
8 purchase of transportation, storage, and parking and lending
9 services (including but not limited to price, curtailment,
10 scheduling, priority, or balancing).
- 11
- 12 iv. Designated MGE and PEPL employees are required to receive
13 annual training on the FERC Standards of Conduct rules.
- 14
- 15 v. Penalties for violating these rules are severe – the Energy Policy
16 Act of 2005 increased the FERC's maximum civil penalty
17 authority from \$5,000 per day per violation up to \$1,000,000 per
18 day per violation. In addition, the FERC can tailor penalties to
19 include a) disgorgement of unjust profits and b) suspend,
20 condition, or revoke market-based rate authority, certificate
21 authority, or blanket certificate authority. Potential criminal
22 penalties for willfully and knowingly violating the Natural Gas Act
23 and the Natural Gas Policy Act were increased up to \$1,000,000
24 and imprisonment up to five years.
- 25

26 **Q. WHAT CONCLUSION SHOULD THE COMMISSION DRAW FROM**
27 **THE EXISTENCE OF THESE ADDITIONAL FERC CONTROLS?**

28 A. Along with the substantial protection of customer interests provided by the audit
29 and prudence review the Commission's Staff undertakes during its annual ACA
30 audits of MGE's gas supply activities (including capacity and storage
31 acquisition), these changes in the operating environment provide adequate
32 protection for MGE's customers without the subject condition.

33

34 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

35 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter Southern Union Company)
d/b/a Missouri Gas Energy's)
Application for Waiver/Variance) Case No. GE-2011-0282

AFFIDAVIT OF KURT GREGSON

STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

Kurt Gregson, 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.



KURT GREGSON

Subscribed and sworn to before me this 25th day of October 2011.



Notary Public

My Commission Expires: 10/5/13

