

PSC STAFF REPORT
CASE NO. GC-2011-0101

**SUPERIOR BOWEN ASPHALT COMPANY, L.L.C.,
COMPLAINANT**

v.

**SOUTHERN UNION GAS COMPANY, d/b/a MISSOURI GAS ENERGY,
RESPONDENT**

INTRODUCTION

Superior Bowen Asphalt Company, L.L.C. (Superior Bowen or Complainant) filed a complaint against Southern Union Gas Company, d/b/a Missouri Gas Energy (MGE or Respondent) on October 7, 2010. The Complaint seeks an order from the Commission, finding that:

- It was not necessary for MGE to replace the lines and regulator to provide safe and adequate service to enable Superior Bowen to provide 8.5 pounds per square inch gauge (psig) at the burner tip of the new furnace.
- The lines replaced by MGE were to have been replaced pursuant to MGE's Safety Line Replacement Program (SLRP) for the replacement of cast iron mains as required by 4 CSR 240-40.030(15)(D) and the costs therefore allowed deferred treatment under an Accounting Authority Order granted by the MoPSC or pursuant to Infrastructure System Replacement Surcharge (ISRS) and should not be charged to Superior Bowen.
- The costs of the replacements MGE seeks to recover from Superior Bowen are excessive, unjust, unreasonable, and confiscatory.
- MGE must refund to Superior Bowen with interest all monies paid under the Contract by Superior Bowen to MGE as a condition of supplying Superior Bowen with gas transportation service to operate its new furnace at its 2501 Manchester Trafficway Plant.
- MGE's actions in replacing the gas line and other facilities and requiring Superior Bowen to pay for the cost of replacement before it would serve Superior Bowen's need for additional pressure violates Sections 393.130 and 393.140.11, RSMo., and is prohibited since MGE has no applicable tariff provision under which it has been authorized by the MoPSC to make such charges and such action is prohibited by such statutes as being unjust and unreasonable and unduly discriminatory.

- MGE's Tariff Sheet No. 61.3, item number 10, upon which MGE claims as authority to charge Superior Bowen for the facilities upgrades it has made is not applicable.
- There were no capacity limitations restricting the volume of gas that Superior Bowen desires to be transported on MGE's system to its Manchester Plant.
- MGE is unduly discriminating against Superior Bowen by requiring Superior Bowen to pay for replacement of lines already scheduled for replacement under SLRP because it is a transportation customer and not a sales customer of MGE.
- MGE is unduly discriminating against Superior Bowen and giving undue preference and advantage to other current and potential customers of MGE by requiring Superior Bowen to pay for improvements that are in excess of what is needed by Superior Bowen or its new furnace, but which would be available for use by current and potential customers of MGE, served or to be served, for the upgrade portion of MGE's system paid for by Superior Bowen.

MGE filed its Answer to the Complaint on November 2, 2010. Following several requests for extension of time to allow for discovery, the Commission ordered the Staff to file a report on the allegations in the complaint no later than February 25, 2011.

The Commission's Utility Operations Gas Safety/Engineering Staff (Staff) has reviewed all filings in this case, all data request responses from MGE and Superior Bowen, and additional information submitted by MGE to all the parties (by e-mail) on February 18, 2011. Staff's Report addresses the nine items noted above for which Superior Bowen requests an order from the Commission for relief.

STAFF'S ANALYSIS AND REPORT

(1) It was not necessary for MGE to replace the lines and regulator to provide safe and adequate service to enable Superior Bowen to provide 8.5 psig at the burner tip of the new furnace

For Staff to properly analyze the allegations concerning necessity for MGE to replace its cast iron mains that serve the Complainant, the Staff must be informed of the delivery pressure that Superior Bowen informed MGE was required to be delivered at the MGE delivery point to Superior Bowen (delivery point pressure). The minimum delivery pressure required to be

maintained at the burner tip of the new furnace by itself does not allow Staff to calculate the pressure required on MGE's upstream cast iron mains. Neither Superior Bowen nor MGE could tell Staff the requested delivery point pressure.

Why must Staff know the specific delivery point pressure that was communicated to MGE by Superior Bowen?

For Staff to determine whether it was or was not necessary for MGE to undertake pipeline replacements in the distribution system that serves Superior Bowen, Staff needed to know the required delivery point pressure in order to estimate the pressure that would have been required in MGE's distribution system piping upstream of the delivery point. To determine the estimated minimum pressure required in MGE's distribution system, Staff's approach was to begin with the delivery point pressure needed at Superior Bowen's facility and to then determine the estimated pressure losses in MGE's distribution system piping from the MGE regulator station to the Superior Bowen facility at the flow rates needed by Superior Bowen. By adding the delivery point pressure (needed by Superior Bowen) to the estimated pressure losses in the MGE distribution system, the Staff could then approximate the pressure required in MGE's upstream distribution system for MGE to be able to provide Superior Bowen's minimum required delivery point pressure that would provide the required pressure at the burner tip of the new furnace. If Staff could determine the required raise in pressure of MGE's upstream distribution system, which it is unable to do because the delivery point pressure is unknown, the Staff could then make a determination whether the cast iron mains needed to be replaced to serve Complainant's new requirements.

The delivery point pressure, needed to maintain the new required minimum pressure of 8.5 psig at the burner tip of the new furnace, is necessarily higher than the burner tip pressure because of pressure losses in Superior Bowen's piping downstream of the delivery point at maximum flow rates. Superior Bowen alleges that it was not necessary for MGE to replace the lines and regulator. As correctly indicated to Greg Elam (an energy consultant for Superior Bowen) in a January 7, 2009 e-mail from David Glass of MGE (information sent to all parties by e-mail on February 18, 2011), "The actual pressure that is delivered to the Superior Bowen end use equipment will depend on pressure drop in the facility piping and the capacity and set-points of any regulators and control valves that are owned, operated and maintained by Superior Bowen. Improvements in pressure at end use equipment may be available with increases in plant

pipng sizes, increased set-points for (plant) regulators and control valves or larger regulators and control valves.” Because of this, the pressure required at the delivery point is necessarily higher than the downstream pressure that is needed to maintain the minimum pressure required at the burner tip.

What was the delivery point pressure required to maintain a minimum pressure of 8.5 psig at the burner tip?

The Staff requested this information in data requests to Superior Bowen. Instead, Superior Bowen provided the minimum pressure it required at the burner tip. The response did not quantify the delivery point pressure, but indicated to Staff that written information for that time period was misplaced. The Staff also requested in data requests to MGE, what it understood to be the delivery point pressure requested by Superior Bowen, but the MGE data request response did not provide a definite answer. An additional follow-up inquiry of MGE personnel could not quantify the pressure. In response to Staff Data Request No. 11, MGE stated “Network analysis showed that MGE would have to raise the system maximum Allowable Operating Pressure to above the 25 psig maximum allowed in 4 CSR 240-40.030(12)(N)1.C.”. MGE ultimately could not quantify the delivery point pressure. Therefore, Staff was not provided this critical piece of information (the specific delivery point pressure required by Superior Bowen and understood by MGE).

Without knowing the specific delivery point pressure that was (1) requested by Superior Bowen, or that (2) MGE believed was requested, Staff cannot develop an estimate of the operating pressure in the distribution system needed by MGE to serve Superior Bowen. Accordingly, Staff is unable to make an independent determination of whether MGE did or did not need to make the line replacements that it made in order to serve Superior Bowen’s new furnace.

Therefore, Staff considers the following facts. If a distribution system contains segments of cast iron pipe with unreinforced bell and spigot joints, the pressure cannot exceed 25 psig according to 4 CSR 240-40.030(12)(N)1. MGE states in response to Staff Data Request No. 11 that it believed that the distribution system allowable operating pressure would have to be raised above 25 psig to meet the requirements of Superior Bowen. As noted above, Staff was not able to approximate the MGE distribution system pressure that would have been required from the information provided. However, if the pressure in the distribution system needed to exceed 25

psig to provide the pressure and volumes needed by Superior Bowen, then the cast iron would have to be replaced as required by 4 CSR 240-40.030(12)(N)1.C.

Another factor in MGE's consideration of the maximum operating pressures for cast iron mains is 4 CSR 240-40.030(12)(N)1.E. (not operating above the pressure determined by the operator to be the maximum safe pressure). This concern is exemplified by a May 2007 incident that occurred on MGE's distribution system where a section of cast iron main came apart and blew out of the ground without warning. There was no history of corrosion on the segment or known prior damage. Following the incident, MGE had heightened safety concerns about the operating pressure of its cast iron mains operating at 25 psig or above, as well as the integrity and safe operating pressure of its cast iron mains in general.

In making its determination that the cast iron mains needed to be replaced, MGE apparently proceeded on the assumption that the delivery point pressure that was needed to "guarantee" that the pressure delivered to the new Superior Bowen furnace would not drop below 8.5 psig required MGE to increase the pressure in its distribution system to a pressure it believed to be greater than a maximum safe pressure for its existing distribution system.

(2) The lines replaced by MGE were to have been replaced pursuant to MGE's Safety Line Replacement Program (SLRP) for the replacement of cast iron mains as required by 4 CSR 240-40.030(15)(D) and the cost therefore allowed defer treatment under the authority of an Accounting Authority Order (AAO) granted by the MoPSC or pursuant to ISRS and not charged to Superior Bowen

The cast iron mains that were replaced as part of MGE's system improvements for the Superior Bowen upgrade were not scheduled to be replaced pursuant to the SLRP. MGE is currently eliminating approximately 5 miles of cast iron main annually as part of a "long-term, organized replacement program and schedule established for cast iron pipelines" as required by 4 CSR 240-40.030(15)(D)2 and Case No. GO-2002-50. MGE's response to Data Request No. 11 indicates the cast iron mains replaced in conjunction with the Superior Bowen project did not have corrosion or fracture history that would have caused them to be scheduled for replacement under the SLRP. At current replacement rates, the remaining cast iron in MGE's distribution system will be eliminated in 71 years. Therefore, since the mains involved in the Superior Bowen replacements reportedly did not exhibit conditions that would make them candidates for

required replacement under the SLRP, it could be decades before the mains involved in the Superior Bowen project were scheduled for replacement as required by GO-2002-50.

If the mains were not scheduled for replacement under the SLRP, but were replaced due to the increased distribution system volume/pressure requirements MGE believed was required by Superior Bowen, then it would not be appropriate for those replacement costs to be deferred under an AAO or to be included in an ISRS, but should be charged to Superior Bowen as required under MGE's tariff sheet 61.3 (discussed below) and not included in rate base for recovery from all MGE customers. However, as noted previously, Staff cannot determine what distribution system operating pressure was needed, and therefore, Staff cannot determine the extent to which replacements were or were not necessary.

(3) The costs of the replacements MGE seeks to recover from Superior Bowen are excessive, unjust, unreasonable, and confiscatory

As noted in (1) above, it seems that MGE made replacements in its distribution system based on assumptions of the distribution system pressure necessary to maintain a delivery point pressure that would guarantee the pressure at the burner tip of the new furnace would not drop below 8.5 psig. As previously noted, Staff was unable to ascertain from the parties the required delivery point pressure and was unable to accurately estimate the pressure needed by the MGE distribution system. MGE seems to have proceeded on the assumption the distribution system pressure required would be above the maximum safe pressure to meet Superior Bowen's requirements. Without concrete information, Staff is not able to determine if the costs are or are not excessive, unjust, unreasonable, or confiscatory.

(4) MGE must refund to Superior Bowen with interest all monies paid under the Contract by Superior Bowen to MGE as a condition of supplying Superior Bowen with gas transportation service to operate its new furnace at its 2501 Manchester Trafficway Plant

For the reasons noted in items (1) – (3) above, Staff is not able to determine if monies paid to MGE by Superior Bowen should or should not be refunded.

(5) MGE's actions in replacing the gas line and other facilities and requiring Superior Bowen to pay for the cost of replacement before it would serve Superior Bowen's need for additional pressure violates Sections 393.130 and 393.140.11, RSMo. and is prohibited since MGE has no applicable tariff provision under which it has been authorized by the MoPSC to make such

charges and such action is prohibited by such statutes as being unjust and unreasonable and unduly discriminatory

Staff believes MGE's Tariff Sheet No. 61.3, item number 10, would properly apply if system enlargements were a result of Superior Bowen's request. Specifically, item number 10 of the Tariff reads,

...If capacity limitations restrict the volume of gas which the customer desires to be transported, the customer may request the Company to make reasonable enlargements in its existing facilities, which requests the Company shall not unreasonably refuse, provided the actual cost (including indirect costs) of such system enlargements are borne by the customer.

If Superior Bowen's need for additional pressure resulted in system enlargements then Staff believes the quoted Tariff language is applicable.

(6) MGE's Tariff Sheet No. 61.3, item number 10, upon which MGE claims as authority to charge Superior Bowen for the facilities upgrades it has made is not applicable

If it is determined that the system replacements were a result of Superior Bowen's request, MGE's Tariff Sheet No. 61.3, item number 10, is applicable and can be properly applied to require the cost of improvements to MGE's system that are specifically needed to meet the requirements of a transportation customer and the costs are to be borne by that customer. Refer to item (5) above.

(7) There were no capacity limitations restricting the volume of gas that Superior Bowen desires to be transported on MGE's system to its Manchester Plant

MGE indicated (response to Data Request No. 8) it could not deliver the volumes of gas that Superior Bowen required and maintain the delivery point pressure that was needed by Superior Bowen. Therefore, it seems MGE believed it was unable to meet the volume and pressure needs of Superior Bowen without improvements to their distribution system. Said another way, with a minimum burner tip pressure of 8.5 psig required by Superior Bowen, MGE would not have been able to safely deliver the volumes of gas required with the existing cast iron mains.

(8) MGE is unduly discriminating against Superior Bowen by requiring Superior Bowen to pay for replacement of lines already scheduled for replacement under SLRP because it is a transportation customer and not a sales customer of MGE

As explained in item (2) above, the lines replaced as part of the Superior Bowen project were not scheduled for replacement under SLRP.

(9) MGE is unduly discriminating against Superior Bowen and giving undue preference and advantage to other current and potential customers of MGE by requiring Superior Bowen to pay for improvements that are in excess of what is needed by Superior Bowen or its new furnace, but which would be available for use by current and potential customers of MGE, served or to be served, for the upgrade portion of MGE's system paid for by Superior Bowen

If the operating pressure required in the MGE distribution system needed to be raised above what MGE determined was the maximum safe operating pressure to deliver the volumes of gas required by Superior Bowen and to maintain the delivery point pressure, then Superior Bowen should bear the reasonable costs for the upgrades to MGE's distribution system. However, as indicated in item (1), based on Staff's investigation, it is not clear how much the distribution system operating pressure needed to be raised.

STAFF RECOMMENDATION

Staff recommends that a conference be scheduled involving all parties to discuss the Complaint and attempt to work toward a resolution. Staff suggests the conference occur in March on a date mutually acceptable to all parties. Following a conference, the parties can move forward with a hearing schedule, if needed.


Notary Public