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Case No(s). GR-2004-0273
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PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of PGA Filing)
)Case No. GR-2004-0273
For Laclede Gas Company)

DEPOSITION OF DAVE SOMMERER, produced, sworn, and examined on January 18, 2007, between the hours of eight o'clock in the forenoon and six o'clock in the afternoon of that day, at the office of Laclede Gas Company, 720 Olive Street, Room 824, St. Louis, Missouri, before Stephanie D. Darr, a Certified Court Reporter and Notary Public within and for Missouri, in a certain cause now pending before the Public Service Commission of the State of Missouri, in re: the Matter of PGA Filing for Laclede Gas Company.

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George Godat

IT IS HEREBY STIPULATED AND AGREED by and between counsel for the Plaintiff and counsel for the Defendants that this deposition may be taken in shorthand by Stephanie D. Darr, CCR and notary public, and afterwards transcribed into printing, and signature by the witness expressly not waived.

* * * * *

DAVE SOMMERER,

of lawful age, produced, sworn, and examined on behalf of Laclede Gas Company, deposes and says:

EXAMINATION

QUESTIONS BY MR. PENDERGAST:

Q. Just for the record, this is the deposition of Dave Sommerer being taken by Laclede Case Number in Case No. GR-2004-0273. My name is Mike Pendergast and I'm an attorney for Laclede, and Mr. Sommerer, I'll be asking you some questions today. If there is any question that I ask that you don't fully understand, please stop me and ask me to clarify it, okay?

A. Okay.

Q. Great. Please state your name and address for the record, Mr. Sommerer?

A. My name is David Sommerer. My business address is Missouri Public Service

Commission, P.O. Box 360, Jefferson City, Missouri 65102.

Q. And by whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission as the manager of the Procurement Analysis Department.

Q. Are you the same Dave Sommerer who has filed direct rebuttal and surrebuttal testimony with Case No. GR-2004-0273?

A. Yes.

Q. Okay. Are there any corrections or changes to either your direct rebuttal or surrebuttal testimony?

A. Not at this time.

Q. Okay. Let me ask you to clarify a question first about your proposed disallowances. I understand it you have revised that disallowance since you filed your sir rebuttal testimony; am I correct?

A. That's correct.

Q. Can you explain the nature of that revision?

A. That revision basically took the adjustment from $2.4 million to approximately $2

million, and I believe it dealt with a reclassification of some of the contracts.
Q. Okay. So your proposed disallowance at this point is worth how much?
A. Approximately $2 million.
Q. Okay. Now, I'd like to begin by just making sure I have a complete understanding of what your proposed disallowance is, how it was calculated and the reasons you've given for making the adjustment. As of today you're proposing disallow of approximately $2 million in producer demand charges that were paid by Laclede in connection with its swing gas supply contracts in the 2003-2004 ACA period; is that correct?
A. That's correct.
Q. Okay. Can you tell me what the total demand charges Laclede paid during this period were in connection with all of its contracts?
A. The number that I have for 2003-2004 for demand charges is $20,291,999.
Q. And that's for all of Laclede's contracts?
A. That's correct.
Q. And can you tell me what portion of those demand charges were paid by Laclede in

connection with what are commonly described in your testimony and testimony of Mr. Godat as swing contracts?
A. I believe that number appears on Schedule 6 of my direct testimony, and I have that recorded as $4,614,919. That would be swing demand charges for the 2003-2004 ACA period.
Q. So approximately $4.6 million?
A. That's correct.
Q. Okay. And of that amount a certain portion of that is associated with reserving gas under those particular swing supplies? In other words, just purchasing the right to make sure the gas is available under the terms of the contract when Laclede needs it; is that correct?
A. That's correct.
Q. And what portion of the $4.6 million is associated with that in your view?
A. We made an estimate based upon some information provided by Laclede that the amount related to having the gas available on a reliable basis was 12 percent of the total. So that would be 12 percent of $4,614,000.
Q. Okay. And that expenditure from your view was reasonable and prudent and you've made no

disallowances actually with that; is that correct?
A. That's correct.
Q. Okay. And is it your understanding that the remaining amount of that was primarily spent in order to purchase the right to have any purchases under the swing gas supplies priced at first of the month prices?
A. That's correct.
Q. Okay. And just to explore with you a little bit what first of the month pricing does. Would you agree with me that if you are taking swing gas under a first of the month pricing arrangement, that if the price spikes during the month that you are able to go ahead and buy the gas at the lower first of the month price?
A. If the price spikes in the daily market and you have rights to buy the gas under swing supply at the first of the month price, you can access that first of the month pricing provision.
Q. So, for example, if gas is say $5 at the first of the month and that's the price that's imbedded in the contract and it spikes to $10 on any given day during the month, the person purchasing the gas under that kind of pricing arrangement will only pay $5?

A. That is correct.
Q. And that would be a savings of $5 compared to what the purchaser would have had to have paid if he was buying gas on a daily pricing provision; is that correct?
A. Given that narrow set of circumstances, potentially you could have savings associated with that. But you would also be considering other tools you might have available. So if you had swing supply available and it was priced at first of the month and you didn't have storage available to draw upon or some other way of mitigating that particular exposure to the daily market, that certainly would be an area where you would have some savings there.
Q. Okay. In fact, those savings have occurred in the past, have they not?
A. Yes. I would say both savings from the daily price spike and also potentially situations would occur where the first of the month price was actually higher than the daily price.
Q. Okay. And if the first of the month price is higher but you don't need the gas under a swing contract you don't have to purchase the gas; is that correct?

A. That is the way the swing pricing works, yes.
Q. Under those circumstances you can go ahead and purchase cheaper gas if you have it available from other supply sources; is that correct?
A. If that gas is available and you need the gas in the daily market you could potentially buy the gas from those other sources, yes.
Q. Okay. Now, as part of your adjustment, have you recognized some of these savings in arriving at your $2 million figure?
A. Yes. I believe we have.
Q. Okay. Can you tell me a little bit about how you computed that?
A. We essentially used the same information that was available to Laclede in looking at the 2003-2004 period. We looked at the contracts, base load combination and swing and did a comparison between the first of the month pricing and the daily pricing using somewhat the same methodology as Laclede used in the 2005 study. However, we did make some modifications to that. The modifications that we made was to isolate the swing supply and remove off system sales volumes from that analysis, and any savings or costs that were related to the differences

between the first of the month pricing and the daily pricing we went ahead and recognized as an adjustment to the producer demand charges for swing supply.
Q. Okay. And what was that level of that savings that you identified and recognized as an adjustment?
A. We recognized a credit of $1,614,034.
Q. $1.6 million approximately?
A. That's correct.
Q. Okay. So first you went ahead and adjusted the $1.6 million that was spent to reflect this 12 percent or so that you indicate was related to reserve and supply; is that correct?
A. That's correct.
Q. And then you recognized that there were net savings produced by these arrangements of $1.6 million and you adjusted your disallowance to reflect that as well; is that correct?
A. That's correct.
Q. And then you made an additional adjustment that got us down to the $2 million figure that we're at right now?
A. That is correct.
Q. But you excluded volumes where swing gas was used to make off system sales; is that

correct?
A. That is correct.
Q. How did you identify what those volumes were?
A. An analysis was made using Laclede's cost of gas schedule, I think they call it their CGS schedule, that has a summary of the off system sales that are made. It was possible by going back and forth between that schedule and the overall supply to identify those contracts that were associated with not only swing supply but off system sales.
Q. Okay. So you could go ahead and identify the swing supplies that were utilized to make off system sales and you backed those out of what you allowed to be recovered basically; is that correct?
A. That's correct.
Q. Okay. And can you tell me how much revenue was generated by those off system sales, net revenue?
A. I do not know.
Q. Did you attempt to go ahead and evaluate how much revenue was produced by those off system sales?
A. No.

Q. You did not?
A. No, I did not.
Q. What is the staff's general approach to recognizing the impacts of off system sales, Mr. Sommerer?
A. Do you mean with regard to recent history?
Q. It's varied over time. Maybe you can give us an indication of how that variation has occurred?
A. Okay. I believe that the first significant off system sales for Laclede occurred back in the mid 1990s, perhaps the 1995-1996 time period. At that time the staff believed that those off system sales were appropriately credited through the purchase gas adjustment clause. The Commission did not agree with the staff, and based upon that decision the off systems sales were flowed directly to Laclede.
Q. If I could just ask you a couple of clarifying questions. Do you recall when that determination was made whether that was proceeded by a filing that the company had made in which it proposed to go ahead and credit off system sales against the PGA?

A. I don't recall that.
Q. And you don't recall whether staff opposed the Commission doing that?
A. No. I do not recall that.
Q. And that's why there was nothing at the time that addressed off system sales?
A. I do not recall that.
Q. Okay. Well, let's continue. Were off system sales eventually offered as a credit to the PGA?
A. At some point subsequent to the '95, '96 period there was a gas supply incentive plan that was implemented as part of the purchase gas adjustment clause. My recollection is there was some sharing between the customer and the company for the net margins related to off system sales.
Q. And do you recall what that sharing was?
A. I believe it was 70 percent to the customer and 30 percent to the company. It's been quite a few years. But that's my recollection.
Q. Okay. And by the time we get up to the 2003-2004 ACA case, were off system sales recognized as an imputation in the base rates?
A. Yes, they were.

Q. Okay. And can you tell me how that imputation works?
A. That imputation basically is a recognition that Laclede makes off system sales and capacity releases through the use of various gas supply and gas transportation agreements and recognizing that there are some credits or revenues associated with that process. There is an offset that's typically proposed not only by the staff but by the company, and some level is considered as a credit to the cost of service in the context of the general rate case.
Q. And when you say a credit cost to service, the impact of that credit is to reduce those base rates below the level they would otherwise be at; is that correct?
A. Absent any level of capacity release or other off system sales, that's correct. In other words, if you didn't have any capacity release or off system sales --
Q. Yeah. If you had zero there wouldn't be a credit. But as long as there is some and it's recognized as credit that reduces base rates for customers; is that correct?
A. That's correct.

Q. That's a benefit to customers, isn't it?
A. Yes. The benefit would definitely be something that the customers would be in favor of and receive benefit from.
Q. Okay. And just so I'm clear, what is staff's general approach when it comes into a rate case and it proposes amount as you say staff has to be imputed rates. How does staff come up with its recommendation?
A. The staff will submit data requests to the company and ask for a history of capacity release in off system sales. It will analyze the volumes, the profits, perhaps even the unit rates that are associated with the off system sales and capacity releases. Sometimes there may be some further analysis about what pipeline the capacity releases are occurring on. The type of weather that you may be experiencing in a particular winter. Why off system sales may be higher or lower in a particular winter. What might be driving certain volatility that creates the opportunity for the off system sales. The off system sales buyers, we may look at that kind of detail. But generally speaking from an annualization sense of trying to come up with

the number you were focusing on some time period, some history.
Q. Okay. And with the view of trying to come up with some reasonably representative level of off system sales to be included in base rates, is it an offset to those base rates? Would that generally be correct?
A. That's correct.
Q. And that was the prevailing regulatory practice that was in effect during the 2003-2004 ACA period; is that correct?
A. That's correct.
Q. Okay. But despite the fact that was a prevailing regulatory practice in effect during the ACA period according to your testimony just a few moments ago, you didn't make any effort to determine what level of net off system sales revenues were generated by these particular swing contracts during the 2003-2004 ACA period; is that correct?
A. That's correct.
Q. Okay. If I could turn your attention to Page 14 of your direct testimony. I direct your attention down to Line 20, and there you're discussing Laclede's May 1996 report and some of the concerns staff had with that report; is that correct?

A. That's correct.
Q. Okay. And in your answer on Lines 20 to 21, Laclede's study inappropriately combines summary contracts, base load, combo and swing. Do you see that?
A. Yes.
Q. And is it your view that if Laclede were to conduct a formal study that would pass mustard with you, that they ought to be evaluating their various kinds of contracts separately to determine whether or not it is prudent to pay demand charges in connection with each of those kind of contracts?
A. That's correct.
Q. Okay. If I could take you back to Page 10 of your direct testimony, and there you give a chart at the top that purports to show the total amount of demand charges paid by Laclede from the 1998-1999 ACA period and the 2003-2004 ACA period; is that correct?
A. That's correct.
Q. Okay. And these are demand charges that Laclede paid in connection with all of its contracts, including base load combo and swing; is that correct?

A. That's correct.
Q. Okay. Are you familiar with the final report of the Missouri Public Service Commission's Natural Gas Commodity price task Force which was issued August 29, 2001?
A. Yes.
Q. Okay. And can you tell me a little bit about how that task force report came about and who participated in the task force?
A. I believe that task force was put together after the Winter of 2000-2001. During that winter there were some fairly significant price spikes which caused a concomitant drive up in the purchase gas adjustment rates for most Missouri LDCs, local gas distribution companies. So the Commission created this task force to look at those issues to see if perhaps certain things should be done to address the Purchase Gas Adjustment Clause, price volatility in general, what other states were doing in the context of looking at gas cost, and their exposure to price increases. So that's the general reason for the task force.
Q. And the task force made a number of recommendations, do you recall?
A. That's correct.

Q. And one of the recommendations that they made was to continue to use various kinds of financial instruments to try and -- or contracts to try and mitigate price; is that correct?
A. That's correct.
Q. And just to refresh your memory a little bit, those particular recommendations were set forth in various tabulations that were included in the report involving what I think were denominated as consumer groups, utilities and industrial customers?
A. That's correct.
Q. And the continued use of instruments, financial instruments and contracting mechanisms, whether they be call options, fixed price contractors, received a fairly strong endorsement from all groups, did they not?
A. I think certainly with regard to the fixed price contracts, call options, collars, c-o-l-l-a-r, natural gas storage, those all receive very strong ratings from the various groups. It was somewhat less enthusiastic in terms of weather derivatives and out sourcing.
Q. Right. And just to be clear, that strong endorsement from that group, that group consisted also of you; is that correct?

A. That's correct.
Q. Okay. And it also talked about incentive mechanisms, didn't it?
A. That was my recollection, yes.
Q. If I could direct your attention to Page 53, and there it talks about providing incentives for demand charges; is that correct?
A. That's correct.
Q. And so under the introductory paragraph to the discussion of the pros and cons of providing incentives for demand charges, it talked in terms of what typically those demand charges paid on contracts are; is that correct?
A. That's correct.
Q. And it gave a percentage; is that right?
A. That's correct.
Q. And what is that percentage?
A. The statement here says that these charges do vary significantly, but typical values are around two to five percent of total gas costs.
Q. Okay. And do you have any reason to believe that wasn't accurate in 2001?
A. I think it was a fairly general statement, and as I look at it, it appears to me to

be more applicable to Laclede rather than most of the LDCs that I'm familiar with.
Q. Okay.
A. In Missouri.
Q. Okay. But you reviewed that -- you reviewed this entire report, didn't you, before it was issued by the Commission?
A. I certainly read through the entire report. I would have to say most of my efforts were spent in a particular area of the report regarding financial hedging or options to reduce gas price volatility. I would say that I read the report, yes.
Q. Okay. And you don't recall at the time that jumping out at you was something that was wrong or incorrect, do you?
A. No.
Q. Okay. So that was 2001. If we can go back to Page 10 and look at your report or your chart that's up at the top there. You have given these demand charges in absolute dollar values; is that correct?
A. That's correct.
Q. Can you tell me, just so we can relate it back to the report here of the two to five percent, what percent those demand charges would be

of Laclede's overall gas costs?
A. Laclede's gas cost will vary significantly from year to year depending upon the overall well head cost of gas which fluctuates greatly from year to year as does the weather and the volumes that Laclede sells. I could come up with a ball park estimate, but I don't know the particular gas cost.
Q. Well, let me show you. Do you recall getting reports from Laclede when we did something called the DCCB, which we won't go into detail now on, where we showed what gas costs were for various periods of time?
A. I do remember the DCCB process and in general some of the reports that Laclede would have provided.
Q. Okay. And do you remember -- well, let's just assume that for purposes of this that Laclede's gas costs at least under the DCCB was approximately $218 million in 2004. Does that sound pretty much in the ball park to you?
MR. REED: What's the DCCB stand for?
MR. PENDERGAST: Deferred carrying cost balance I think.
THE WITNESS: Well, in fiscal year

2004 I see a total natural gas cost of $503 million. I don't see the $200 million that you're referring to.
Q. (By Mr. Pendergast) Did I say $200 million? Why on earth did I say that? If I said $200 million I meant $518 million. That should have been obvious. Let's call it shall we just for purposes of doing a calculation approximately $420 million, and if we assume that that's roughly equivalent to what Laclede's gas costs were during 2003-2004 ACA period, what percentage would $20 million be of that?
A. Well, ten percent would be $42 million. Five percent would be $21 million. So I think you're looking at a little less than five percent.
Q. Under five percent. Okay. Did you do any analysis on any of these years to determine what percent these particular demand charges were of Laclede's overall gas costs?
A. No.
Q. Turning back to the final report of Missouri Public Service Commission's Natural Gas Commodity Price Task Force. That presented various pros and cons for why you would want to go ahead and

offer an incentive on producer demand charges; is that correct?
A. That's correct.
Q. Okay. And can you read me the first con?
A. Demand charges constitute a small fraction on the total cost of gas. Rewarding efforts in this area of procurement may detract from efforts in areas that could produce more meaningful results.
Q. Okay. Do you agree with the statement that demand charges constitute a small fraction on the total cost of gas?
A. I would agree that demand charges constitute, currently constitute using the numbers that we've discussed a small proportion of the total cost of gas.
Q. Okay. Turning back to your chart. Once again, these demand charge numbers represent the total demand charges paid by Laclede during each of these ACA periods on all of its contracts; is that correct?
A. That's correct.
Q. Okay. And you indicated a little while ago that you thought it was appropriate for purposes of assessing the prudence of a particular

decision to pay demand charges in order to obtain the right to purchase gas at first of the month, that you ought to look at each kind of contract separately. Do you recall saying that to me?
A. Yes.
Q. Okay. I'd like to ask you how did the demand charges for swing supply increase from 2002-2003 to 2003-2004?
A. I don't have the specific numbers available with me. But I recall that we looked at the amount that the unit rate increased from 2002-2003 to 2003-2004, and that increase was approximately 70 percent.
Q. 70 percent. What contracts did you use to come up with that determination?
A. We used the swing contracts.
Q. Did you look at the BP contract? Is that a swing contract, do you know?
A. I don't have the list of swing contracts with me.
Q. Okay. But you say they went up 70 percent. So the total amount of demand charges paid by Laclede on its swing supplies during 2003-2004 versus 2002-2003 went up 70 percent?
A. The unit rate went up 70 percent. We

made a comparison between the rates that were required during the 2003-2004 period. My recollection was that rate was 35 cents for each maximum daily quantity contracted, and we made a comparison to the rate for swing supply in 2002-2003. My recollection was that that number was around 21 cents. So you compare 35 cents versus 21 cents, take the difference, divide it by the prevailing charges for swing supply in 2002-2003. You get 70 percent.
Q. Okay. On a unit basis. So in your testimony you talk about overall demand charges nearly doubling, right?
A. That's correct.
Q. Okay. But when you look at swing supplies at least on a unit basis, instead of 100 percent increase it was more like a 70 percent increase; is that correct?
A. That's correct.
Q. Can you tell me in an absolute value basis like you have in your chart here where you talk about the doubling of demand charges in general, what was the absolute amount of dollars spent by Laclede in 2003-2004 for demand charges on swing supplies versus 2002-2003?
A. We looked at that number. I don't

think I have it available with me. But we did make that calculation.
Q. Okay. Do you recall what percentage increase in absolute dollars it was?
A. No, I do not.
Q. Okay. So you don't know if it was 25 percent, 50 percent, 75 percent?
A. I think generally, and this is just going from memory. It was some number less than 70 percent and greater than 30 percent. Somewhere within that range. Somewhere between 30 to 70 percent.
Q. Okay. But as we sit here today as I read your testimony, one of the reasons you have given us to why you think Laclede should have done a formal study of these demand charges on its swing supplies is because its overall demand charges have nearly doubled. As you sit here today, you can't tell me what the increase was in demand charges on swing supplies; is that correct?
A. As we sit here today, I can tell you that the rate went up 70 percent. I can say that the overall dollar amount went up something in excess of 30 percent. But I cannot give you the specific percentage increase comparing the two absolute

dollars from '02-'03 to '03-'04.
Q. Okay. Well, I mean either at 70 percent or 30 percent, they obviously increased less than the demand charges for our combo contracts; is that correct?
A. That's correct.
Q. And you've made no disallowance on the combo contracts?
A. That's correct.
Q. Do you know as a percentage of overall gas costs whether demand charges for swing supply as a percentage of swing supply actually increased from 2002-2003 to 2003-2004?
A. No.
Q. Did you know it before you proposed your disallowance?
A. No.
Q. So in proposing your disallowance you were without the benefit of knowing on a relative basis whether the demand charges paid by Laclede on its swing supplies had increased, decreased or remained the same as a percentage of its overall gas costs from 2002-2003 to 2003-2004; is that a true statement?
A. That's true.

Q. Okay. We talked a little bit earlier about gas spiking during the month. Do you recall that discussion?
A. Yes.
Q. What's the biggest intra month price spike that you've seen that you're familiar with say in the last six or seven years?
A. There were some pretty significant price spikes in February of 2003 from the middle of the month towards the end of the month. My recollection is there were some daily prices that may have exceeded $20 per MCF.
Q. $20 per MCF. Now, if you had first of the month pricing in effect, you would not pay that $20 increase, would you?
A. I need a clarification. Are you saying first of the month pricing for the entire portfolio, for a particular aspect of the portfolio, for some incremental supply during that month?
Q. Well, let's say that gas prices have spiked $20 and you're utilizing swing supplies to purchase that because you don't have anything else available to purchase it with. To the extent that you had first of the month pricing you would be able to avoid that $20 increase; is that correct?

A. That's correct.
Q. Okay. And let's say that you did that for 20 days. The price remained at that spike level for 20 days and you were drawing on $40,000 a day under your swing contract that was priced without that $20 spike. What kind of savings would that generate?
A. Again, it depends upon the alternatives.
Q. Let's say that you need to use your swing supply -- assume for me if you will that you need to use the swing supply to do that. What kind of savings would that generate?
A. Again, hypothetically speaking, if you had to use your swung supply you had no other alternative, then certainly you would recognize the difference between the daily pricing and the first of the month pricing for that particular volume.
Q. So to finish out the example, if you were drawing on 40,000 a day for 20 days with a $20 savings, how much would that be?
A. $40,000 times 20 would be $800,000. If that went on for 10 days, that would be $8 million.
Q. Okay. $8 million for 10 days, $16

million for 20 days?
A. That's correct.
Q. Once again, how much did Laclede spend on swing supplies for first of the month pricing during the 2003-2004 period?
A. Approximately $4.6 million.
Q. 4.6. Okay. Now you talk about the two studies that Laclede performed of daily pricing versus FOM pricing; is that correct?
A. Yes.
Q. And you indicated that you asked for those studies in Laclede's rate; is that correct?
A. That's correct.
Q. And that was Laclede's 2005 rate case?
A. Yes.
Q. So what's your understanding of when Laclede started paying demand charges to obtain gas at first of the month pricing on swing supplies?
A. This has been a practice that has gone on for quite sometime. Mississippi River Transmission Company used to be Laclede's agent in the mid 1990s, and I really can't speak to whether the practice went that far back. But I will say that since probably the 1995-1996 time frame Laclede has

used first of the month pricing for swing supply.
Q. So at least a decade prior to this 2005 rate case, or approximately?
A. Approximately a decade.
Q. And you first asked for a study from Laclede on that in Laclede's 2005 rate case?
A. I think our data request generally will ask for various types of support and studies that Laclede has done to support their gas cost. In terms of asking for a specific study, the compared first of the month pricing option versus the daily option, that's the first time I can recall staff ever asking for that study.
Q. Again, can you tell me why you asked for it in a rate case as opposed to in an ACA proceeding?
A. I'm thinking the 2005 rate case Laclede had proposed a fairly significant gas supply incentive plan, and my recollection is one aspect of that gas supply incentive plan was producer demand charges. In the context of looking at how Laclede had designed that particular aspect, we were interested in knowing a little bit more about how Laclede contracted for that gas and what their demand charges were historically and how those opportunities

were created for Laclede and how they interrelated office system sales.

Q. And in that rate case of course the level of off system sales to impute rates was an issue; is that correct?

A. I'm not sure the staff even filed direct testimony. I don't think they did in the 2005 rate case. I'm not sure it even reached that juncture.

Q. Did the staff make a recommendation?

A. I'm sure the staff evaluated off system sales and capacity release during that rate case and would have had some sort of proposal for off system sales.

Q. Okay. You say that you asked for the 2005 rate case because a demand charge component was a part of a gas supply proposal that Laclede was offering in that case; is that correct?

A. Yes.

Q. In fact, producer demand charges had been part of Laclede's prior incentive programs, had it not?

A. Laclede's incentive programs were modified over a number of years. But I think there was a time frame when Laclede did have a request for

proposal process in place to deal with producer demand charges. That was of their incentive plan.

Q. And to your recollection, was that an issue that was addressed in a number of proceedings involving Laclede's gas supply incentive plan?

A. I think there were concerns that were raised in at least one proceeding and perhaps more than one proceeding.

Q. Concerns about the incentive approach that Laclede was taking; is that correct?

A. That's correct.

Q. To your knowledge, no one ever raised any concerns about what the heck are you paying these demand charges on first of the month pricing?

A. I think there may have been some early discussion, and this goes back to some of the design of the initial incentive plan where you develop benchmarks to reward the company for dispatching its gas supply from certain areas. This is more on the commodity side of the incentive plan. But that was an adder that was created for reserve charges. They may have been called premiums or reservation charges at that time, and that was integrated into the overall index price or benchmark or target. There was probably some review that was

done on why those charges were made, what was a reasonable amount for that particular benchmark, was it appropriate, how did it interrelate to the index pricing? As I recall, we've had discussions about whether Laclede can buy below index, and that was an issue that was brought up in one of these incentive proceedings where you're trying to discover the relationship between the index incentive and the procedure demand charge.

Q. Well, let me be very clear. Various things were discussed as far as demand charges. Do you recall ever raising a specific concern about whether or not it was prudent to pay demand charges on swing supply during any of these proceedings?

A. No, I do not.

Q. And do you recall ever raising that concern in any of the seven, eight or nine ACA proceedings prior to the 2003-2004 ACA proceeding?

A. No, I do not.

Q. I'd like to have you identify the document that I've just handed to you.

A. This document appears to be a transcript of proceedings from August 10, 1998, in the matter of Laclede Gas Company's tariff sheets designed to extend for an additional period the

experimental price stabilization fund in Case No. G0-98-484.

Q. Okay. To your recollection, Mr. Sommerer, the price stabilization fund was another name for Laclede's hedging program; is that correct?

A. That's correct.

Q. Okay. And not only Laclede but MGE and perhaps Ameren after the winter price spikes of I think, what was it, 1996 all implemented hedging programs?

A. That's my recollection, yes.

Q. Okay. And at least as far as Laclede's hedging program was concerned, that was originally designed to cover 70 percent of Laclede's normal winter flowing volumes at utilizing call options at strike prices between 280 and 320. Does that sound familiar?

A. I think generally those were the perimeters. I don't recall the specific strike price targets. But the volume percentages sound right.

Q. Okay. Well, perhaps if you could review this portion of the transcript that contains my cross-examination of you in that particular proceeding, and if you need to take a few minutes to do that. I'd like to ask you a few questions. You

can keep that.
A. Okay.
Q. Have you had a chance to review those pages?
A. Yes.
Q. And in this series of questions and answers where I was asking questions and you were giving the answers, we had a discussion about how these various perimeters that were I believe jointly endorsed by both the utilities and the staff for these hedging programs were developed; is that correct?
A. That's correct.
Q. And is it also your recollection that the perimeters were that there would be call options purchased for approximately 70 percent of the flowing supply of each LDC with a strike price range of 280 to 320 with adjustments to be made if necessitated by market demands. Does that sound correct?
A. Yes.
Q. And does it also sound correct that there was also a $4 million amount that could be used to purchase those call options?
A. That's my recollection, yes.
Q. And do you recall me asking you

questions about what kind of risk benefit analysis was performed by staff prior to endorsing these particular perimeters and purchases and expenditures?
A. Yes.
Q. And would it be fair to say that your response was that staff didn't conduct any kind of formal study or analysis before endorsing these amounts, these perimeters?
A. I don't think there was a formal study, and I can see I say here there was not a detailed risk assessment performed.
Q. In fact, in your testimony, isn't it true that you say that you relied on your experience, day-to-day experience in the market place, your knowledge of where prices had been and your concerns about where prices were going as opposed to some sort of formal risk benefit analysis?
A. I certainly think that's a fair characterization of my testimony in that case.
Q. In fact, if we go to 136. Just for the record, if I could ask you to read the question and answer, the question beginning at Line 19 on 136 and your answer -- actually, the two questions beginning where I just stated and the two answers ending On Line 11 on Page 137.

A. Starting at Line 19 on 136, the question says, "Yeah. And I appreciate that explanation. And would you agree with me that having given that a lot of features of the existing program were developed based on, you know, reasonable judgment decisions based on prior experience as opposed to just sitting down and reading a lot of -- or preparing a lot of studies and a lot of risk assessments and that type of thing?" Answer. "I would agree with that. It was based upon market experience and the experience that we've had in looking at the LDCs portfolio." Question. "And would the same thing generally be true about the $4 ceiling that's included in the existing program?" Answer. "I think generally you could say the same thing about the $4 strike if you're saying that that's based upon judgment and using market experience, yes."
Q. Okay. And is it your understanding that Mr. Godat in his testimony relative to company's decision to pay demand charges to purchase the right to have FOM pricing on its swing supplies is contending that his decisions were based on market experience, judgment and his knowledge of Laclede's gas supply arrangements?

MR. REED: I want to object to the form of the question. Go ahead and answer, David.
A. Could you reword the question, please?
Q. (By Mr. Pendergast) Yes. And is it your understanding that Mr. Godat is indicating that his decision or the company's decision to pay demand charges in order to obtain first of the month pricing on his swing supplies was based on experience in the market?
MR. REED: Object to the form of the question, please.
A. That's my understanding, yes.
Q. (By Mr. Pendergast) And judgment?
A. That's correct.
Q. And knowledge of Laclede's gas supply resources and portfolio?
A. That's correct.
Q. Okay. And the amounts that were being determined to spend back here in 1998 that you utilized, your judgment and knowledge of the market and knowledge of the LDC's portfolio support was approximately $4 million; is that correct?
A. That's correct.
Q. And once again, the amount that's at

issue in this proceeding relating to demand charges is about $4 million in total with only $2 million being disallowed; is that correct?
A. That's correct.
Q. We talked earlier about intra month price spikes that have occurred in the past. Do you recall that discussion?
A. Yes.
Q. Okay. Have you seen any utilities that have had to pay those intra month price spikes because they didn't have first of the month pricing?
A. Yes.
Q. Okay. And what sort of studies did you request from them as to why it was appropriate to pay those intra month price spikes as opposed to have a pricing arrangement that would have avoided them by having first of the month gas?
A. We asked for their rationale and support for the payment of those kind of prices through the data request process. We asked for what efforts they undertook to mitigate those price spikes. So it would have been a part of the discovery process for the particular actual cost adjustment.
Q. Did you ask them to go ahead and

compare the daily price experience they had had versus what it would have cost them to do FOM pricing?
A. As part of the general review we will ask the LDCs whether they have looked at the alternative between paying first of the month pricing, daily pricing for swing supply. I think generally speaking the response that we've gotten is the premiums have become so expensive to obtain first of the month pricing that the LDCs do not believe it's justified.
Q. Well, I guess my question once again would be have you asked them for a specific analysis of the daily price effects of not having FOM pricing compared to what it would have been if they had had FOM pricing?
A. My recollection is that verbally we have asked those types of questions, and the response generally speaking has been no formal study has been done.
Q. Okay. So no formal study has been done. Would it be fair to say that under those circumstances you have no idea whether or not it would have been cheaper for these other LDCs to pay demand charges to line up gas at first of the month

on swing supplies versus exposing themselves to the daily price spikes?
A. We believe based upon the efforts that those LDCs made in using their storage and attempting to avoid those price spikes that that was the most cost effective way of addressing those price spikes.
Q. Do you have any studies similar in nature to Laclede's that would demonstrate what the results would have been had they paid demand charges on their swing supplies versus not paying them and being exposed to those price spikes?
A. Not for Missouri, no.
Q. So you don't know the answer to that question?
A. Could you repeat the question, please?
Q. You do not know the answer to the question of whether other Missouri LDCs if they had paid demand charges or first of the month pricing on their swing supplies would have had a lower cost of gas than not paying them and being exposed to price spikes, intra month price spikes?
A. That is true.
Q. Okay. So is it your view that you

only look at wanting to have formal studies when you're paying the demand charge to get the FOM pricing but not when you're paying the price spike amount because you don't have FOM pricing?
A. I think in the case of Laclede, what we saw and what raised the concern, and this was why it was brought up in 2003-2004, was a doubling in the overall cost of demand charges. This was analogous to what happened with call options where there came a time when the premiums became so expensive for what was being offered in the market that it became cost prohibited. So the concern the staff had was what did Laclede do in the doubling of those demand charges to make sure that philosophy still made sense?
Q. Well, let's take from there then. The price spikes, had they doubled in their severity over the last three, four years?
A. Certainly the volatility in the market has increased.
Q. Had the amount of the price spikes experienced on an intra month basis at least doubled?
A. I think that's probably the case. But then again, you're dealing with markets that used to be $2 and had the capability of going up to $4.

In fact, what I'll say to clarify my answer is that back in February of 2006 you had tremendous volatility. The first of the month market may have been varying between $1.50 and $3.50. You had some daily prices my recollection in early of '96 that were perhaps $14, $15. So that's a significant price spike, and in magnitude that probably exceeds the large price spikes that we've experienced in the last few years.

Q. So I mean would it be fair to say that where, you know, prices may have spiked during the intra month one or two bucks, by the time you get to 2001-2002, 2002-2003 they're going up maybe $10, maybe $15 on an intra month basis?

A. Well, again, there was that experience I mean back in February of 1996 that I think that daily price went up to $13, $14, $15. So that's a pretty sharp increase in the intra month price.

Q. Well, that's like a tripling or quadrupling of what kind of price spikes we used to get, right?

A. That's true.

Q. So I guess my question to you, Mr. Sommerer, would be if a doubling of demand charges

was enough to go ahead and cause you concern, how would a tripling or quadrupling of price spikes that an LDC without first of the month pricing would be exposed to didn't cause you to request studies comparable to what Laclede has done to see whether they should have been buying that first of the month?

A. I think it was a concern at that time. I think the way that the staff dealt with the concern about daily pricing and the exposure to the daily price market was to go in and ask detailed questions about why that exposure was there and what that particular LDC would have done to mitigate that exposure. That's how we addressed that issue.

Q. Okay. But you didn't address it by insisting on having the same kind of comparative study that Laclede provided you from '96 to 2005 showing the relative benefits of first of the month pricing versus not having first of the month pricing on swing supply, is that correct, or on any kind of supply?

A. I do not recall asking for any formal study related to the request of first of the month pricing versus daily pricing.

Q. So would it be fair to say that if the price spikes that you're exposed to if you don't

have first of the month price spiking quadruple, no need to ask for a formal study. But if the demand charges that you have to pay to avoid those price spikes doubles, you have to have a formal study?

A. I don't think that would be fair to say, no.

Q. Why not?

A. Because we are looking at it in a different way, first of all, and we are asking for those studies in really the same time frame that we have asked for the studies from Laclede. I can't recall asking for a formal study prior to 2005 for that particular type of evaluation.

Q. So is it your testimony that you would be asking for this same evaluation that you think Laclede should have done, you'll be asking for that evaluation from other LDCs?

A. I think that will be a practice that we will continue, yes.

Q. Well, now have you asked for that sort of study from other LDCs, or have you not?

A. We have verbally asked for that study.

Q. And they told you?

A. They have said that no such study has

been prepared.

Q. Okay. So are you going to ask them to prepare one in the future?

A. We will finance to look at that issue for all of the LDCs in Missouri on whether or not they are going to pay producer demand charges for any part of their supply and whether that's justified as opposed to the alternative, which is to go on a daily basis.

Q. Okay. But as it stands right now you have no quantitative basis available to you because you've either asked and they've said nothing exists or you haven't asked to go ahead and show what a first of the month pricing strategy would have done for these other LDCs versus being exposed to intra month price spikes; is that correct?

A. And as I mentioned before, what we have done has gone through the discovery process using data requests asking for the company to justify their exposure to daily pricing. We have not in a formal way asked for a formal study. We have in the past couple of years asked all of our Missouri LDCs whether or not they've made any sort of analysis, and that's usually been done through verbal requests of the LDCs.

Q. So would it be fair to say that if we're in the hearing room and the Commission asks you the question, okay, well, if we just tell Laclede to go to daily pricing and don't be paying any more of these demand charges to line up first of the month pricing, Mr. Sommerer, can I say that based on the experience of other LDCs their customers will be better off, your answer would be what?

A. I would not propose to mandate any particular form of pricing. I think you have to look at it LDC by LDC. You have to look at it in terms of the particular facts and circumstances that are available. I don't think it would be appropriate for me to suggest that Laclede use a particular form of pricing. I don't have all of the variables in place. I don't know the market conditions that Laclede is experiencing today. Something may have been appropriate two years ago and it's not appropriate now. So I think the staff's position is that Laclede needs to evaluate it every year.

Q. Okay. Well, let me ask you this: What if the Commission asked you, well, you know, if paying these demand charges isn't such a good thing to do where there is concerns about the prudence, has the nonpayment demand charges by other LDCs that you

talk about in your testimony, meaning that they're exposed to these intra month price spikes, does that work out pretty good for them, what would your answer to that be?

A. I would say based upon my knowledge and experience with those LDCs and their pricing provisions that it has been beneficial. That that has been appropriate in terms of swing pricing.

Q. Okay. And if they ask you can you put some dollar figures on that for me, would you be able to do that?

A. No.

Q. Okay. So you would tell the Commission that you think it's worked out pretty well for them but I can't give you any dollar figures on it?

A. I would tell them that those companies have experienced daily price spikes in the magnitude that we've discussed. But I can also say that they have been short lived in their duration and that they have taken steps to reduce the exposure. This is something that has satisfied the staff in terms of minimizing the overall cost.

Q. And it's the staff's position that it was not imprudent for them to be exposed to those

daily price spikes; is that correct?

A. For those particular time periods, that's correct.

Q. Okay. And it would also be fair to say that you have just rendered that opinion without having any quantification available to you at this point that would show what their experience would have been under FOM pricing and the payment of producer charges versus not paying them and being exposed to those price spikes; is that correct?

A. Again, I would say that that decision or that answer, my answer, is based upon what we looked at for those LDCs, and we don't have a comparison similar to what Laclede has put together comparing first of the month pricing versus daily pricing for those LDCs. Nor do we have, you know, anything similar to that on a formal basis.

Q. Okay. So to repeat my question. When I say you have just indicated that their actions in your view were prudent, you have done that without having a comparative quantification of what the impact of not having first of the month pricing and being exposed to those price spikes were for them versus what the impact would have been if they had first of the month pricing; is that correct?

A. I would say that the LDCs did not have that normal study. That I'm certain that the staff would have looked at the daily price and first of the month pricing and done its own evaluation if it had concerns about the exposure to daily pricing. That's a common tool that you would expect the staff to use is what's the first of the month price? What's the daily price? What was the duration of the price? So there is an analysis that's going on. There are dollars that are being looked at. The dollars are being quantified. The exposure is being quantified. The mitigation techniques are being looked at. But to answer your question as I understand you're asking it, the staff does not have in hand a formal study from those LDCs looking at first of the month pricing versus daily pricing for swing supply.

Q. It doesn't have a formal study in its hand either done by the LDCs or to your knowledge done by staff?

A. Certainly not over a long time frame. I mean you're looking at a discrete analysis comparison of first of the month pricing that's focused on an outlier. So you're concerned about the outlier, you're concerned about the $20 and you start

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asking questions. You want to know the dollar impact. You want to know what the LDC did, what the pricing provision was, what the weather was, where storage was at, what did they have at their disposal to mitigate the pricing? Those are the kind of questions and that's the kind of analysis that staff is doing. So if the Commission asks me, you know, what is the total dollar savings over five years from daily pricing for this particular LDC, I don't know the answer to that. We don't have that kind of study.
Q. In your experience the prices tend to run up more when it's cold?
A. As a general proposition I would say that pricing tends to run up more when it's cold. It depends upon the particular area in the United States, and prices can run up when it's warm as well depending upon the particular season. You can have regional price increases that reflect other things as well.
Q. But generally speaking, the colder it is the more demand there is. The more prices will tend to trend upwards?
A. Generally speaking I would say that's true.

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Q. And when it's cold and demand is up and customer requirements is up, is that when an LDC like Laclede is more likely to use its swing supplies?
A. Again, generally speaking, I would assume that would be the case except it's going to depend on a lot of variables. It will depend upon where Laclede's combination contracts are for that particular time period, where Laclede's storage is at, what Laclede has experienced prior to that particular cold period. Has it experienced a period of warmth and then it's going into a cold period? Generally speaking though I think the swing contracts are designed to meet cold weather.
Q. Okay. So generally you would tend to use those more when it's colder than when it's not all else being equal?
A. Everything else being equal, yes.
Q. In response to my earlier questions, you indicated that each LDC is different and has different resources. Therefore, is your conclusion that some might have greater needs to have first of the month pricing than others, or a less need?
A. I think that may possibly be a factor. I think in general they would all be

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experiencing some exposure to the daily market and that would be a common decision that you have to look at. But your need for swing supply and when you're going to have to access it and how much you're going to need is going to be pretty much driven by the particular LDC.
Q. Do you think storage should be primarily used for purposes of avoiding price spikes, storage gas?
A. I would say that in a time period where there is plenty of storage and there aren't issues of reliability, that that should be a primary use of storage.
Q. Do you remember in an MGE proceeding, and I think it was in 2001, where they used storage like in November and December and then because gas prices were pretty high and then they didn't have it later on when they were even higher, does that sound familiar?
A. That sounds very familiar.
Q. Do you recall what kind of response staff had to that?
A. My recollection is that staff had concerns over the early use of storage, and this was really a combined concern about what MGE had done

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with financial hedging and how much hedging they had, and also the utilization of their storage.
Q. Okay. And so staff was not favorably disposed to that early use of storage to avoid high gas prices?
A. I don't specifically recall MGE's reasoning behind the extensive use of storage, and I don't know if this is entering into something that was confidential. So I'm going to keep this general and not provide specific numbers. But my recollection is that by December 31st the storage had been reduced very significantly, and the staff's concern there was that that had some negative effects on subsequent price increases. There was less storage available to help mitigate prices.
Q. So what might look like, hey, I'm doing something good with my storage to mitigate a current price, that price might always go up and you wind up paying more, is that correct, if you play that game?
A. I wouldn't necessarily call it a game. I would say that it's a decision that could have consequences either way.
Q. Okay. And you're aware of when Laclede does its planning that it does it based on a

design winter? Are you generally familiar with that?
A. Yes.
Q. And under that it assumes a late winter cold spell where you've already utilized most of your resources and you want to go ahead and have a certain level of storage gas and other resources available to meet that late winter cold spell; is that correct?
A. That's correct.
Q. And would it be your view that you should utilize storage earlier in the year even if it may leave you short on having gas available if those designed conditions were to reoccur during a particular winter?
A. That would not be my view.
Q. Should making certain that you have that gas available to meet those requirements be your first and main and pretty much only consideration?
A. I would certainly agree that reliability is the primary goal in developing a portfolio. But certainly cost has an important role to play and should enter into the consideration as well.
Q. But to be more specific about it, it would be your view that you don't risk not having gas

available when you may need it at the end of a winter period in order to try and potentially mitigate with storage gas some price spike that's occurring in November or December?
A. If there were a real risk in going below reasonable perimeters for reliability for the sole purpose of avoiding some price spike in November or December, I don't think that would be appropriate.
Q. Okay. I'm going to hand you a nonproprietary version of a recommendation that was made in an MGE proceeding. If you could identify this for me.
A. This appears to be a staff recommendation made in Missouri Gas Energy Company, Case No. GR-2003-0330.
Q. And is that staff recommendation signed by you?
A. Yes.
Q. If I could have that back for just a moment. If you could just read for me the paragraph that begins the company's down to cold days out of that recommendation. What page of that recommendation is that on, does that begin on?
A. This is Page 7 of 13.
Q. Okay.

A. The company's previous rationale for withdrawing a substantial quantity of storage gas during the month of November is to ensure that MGE can contract for a high level of flowing gas levels for the remaining winter months. Staff does not follow the company's logic that it must withdraw large amounts of storage gas in November so that the company can have more flowing supply in the later winter months. Staff would expect the plan for storage withdrawals to follow a similar distribution to that of normal heating degree days. It seems more reasonable that the company would want to conserve storage for the later months, months with the real possibility of having extremely cold temperatures and so that it can meet the southern star requirement of having one half to two thirds supply from storage for cold days.
Q. Okay. This memorandum was from December 28, 2004; is that correct?
A. That's correct.
Q. Is there anything you're aware of that has changed staff's view from what was expressed in his memorandum?
A. Not from my knowledge.
Q. Okay. If I could -- now, is it your

understanding that in this ACA period that MGE was zero percent hedged in March of 2003?
A. That's my understanding, yes.
Q. Okay. And is it true that in responding to that the staff said the relevant price risk the company must hedge is the risk in the monthly and daily gas markets. That is the company is exposed to the daily and the monthly market price volatility. Is that a fair summary of what staff said?
A. That is a fair summary, yes.
Q. Okay. When you talk about the relevant price risk the company must hedge is the risk in the daily gas market, are you talking about the daily spot market?
A. It could be the daily spot market. It could be the exposure that the company has with regard to swing supply contracts. It's generally the same market though.
Q. Okay. How do you go about hedging risk in the daily market from daily changes in prices?
A. There are several different ways that you can approach the risk for daily pricing. One is as I've mentioned before the use of available storage

used in a reliable way to mitigate the price in the daily market. Another possibility is to actually have a physical cap on the daily price. You've got a contract with the producer. That producer has either referenced a daily index or perhaps it's a spot contract. But there is a possibility of doing some sort of hedge within the context of that physical supply contract.

Q. Okay. Well, under that kind of hedge, what would you do? Would you have a contract that said producer provide me gas at say first of the month pricing, I don't want to be exposed to that daily price change?

A. I think potentially the first of the month pricing could offer you some limited ability to hedge the daily exposure. It brings up exposure to the first of the month market which has its own volatility and concern about hedging. But that may be some -- have some value.

Q. But that's a way to address that price, daily price risk that you talked about, right?

A. That is one way that it could be partially addressed. But recognizing that it opens you up to another type of risk.

Q. Okay. Are you familiar with, it

doesn't look like it's in there, John H. Herbert?

A. Yes, I am.

Q. And can you tell me a little bit about Mr. Herbert and what you know about him?

A. Mr. Herbert was retained by the staff to look at the pricing experience during the winter of 2000-2001. He participated in each one of the actual cost adjustment reviews during that time period. He focused upon the hedging that took place by the local distribution companies and developed recommendations and proposals based upon what he had reviewed. His experience, his work experience was with the Energy Information Administration, which is part of the Department of Energy, and he also had experience in evaluating pricing patterns through his work with the EIA.

Q. So would you say he's a recognized expert in terms of hedging strategies?

A. Yes.

Q. And he presented his findings in a March of 2002 report, did he not?

A. Yes.

Q. If I could ask you to turn to 42, and by the way, what's the name of the report if you could for the record?

A. This report is called the General Report on Analysis of Gas Supply and Hedging Practice by Regulated Natural Gas Utilities in Missouri by John H. Herbert, March 2002.

Q. Okay. And if you go to 42, and if I could see it just a moment. The last sentence on the last full paragraph, would you read that for the record?

A. Also, the use of operationally flexible storage and/or swing contracts with first of the month index prices can also reduce cost at times of peak prices.

Q. Do you agree with that statement?

A. Yes.

Q. And could you read numbered paragraph two there where Mr. Herbert talks about experience with gas prices?

A. Utilities could have investigated purchasing call options to guard against peak prices near the beginning of the heating season when it became increasingly clear when the price level was likely to rise during the heating season or price spikes were likely to occur and to recur or persist during the heating season. Thus, there was little chance utilities would be able to avoid these price

increases by increase use of storage or by other means. An explanation that options weren't used because they became increasingly expensive and must be carefully scrutinized. As with any insurance, premiums are large when the risk is great. High premiums do not preclude the use of call options.

Q. And would you generally view that -- first of all, do you have any disagreement with that statement?

A. I would agree with that statement.

Q. And would you agree that generally what he's stating here is that in certain environments prices are going to go up and so too are the instruments or arrangements that you try and contract for to avoid that price volatility or mitigated. Would that generally be true?

A. Yes.

Q. And it's no good excuse just to say that they're higher than they were not to go ahead and pursue them and evaluate them, right?

A. That's true.

Q. Would you also agree that as storage availability increases the prospect for higher prices increase?

A. You'll have to elaborate on that.

Q. Well, as the amount of gas in storage, and you're aware that they typically report overall amounts of gas and storage on a fairly regular basis?
A. Nationally, yes.
Q. Nationally, yes.
A. Yes.
Q. And would you generally agree that as those amounts of gas in storage decline compared to previous years, that that can have an upward impact on gas prices?
A. I think it's one factor. All other things being equal with storage being less available or less full than normal amounts, I certainly think that would have an influence on increasing prices. But there are countervailing influences that could go the other way.
Q. Okay. Well, let's talk a little bit about that. But all things being equal that's going to tend to put upward pressure on prices?
A. Generally speaking I would say that's my experience, yes.
Q. During the summer preceding the ACA period of 2003-2004, do you know what the storage, nationwide storage situation looked like?

A. My general recollection would have been that it was less than normal and this is based upon the cold that was experienced in the prior late winter, February of 2003. But I really don't recall the specifics of where national storage was going into the winter of '03-'04.
Q. Okay. But your sense was that it was lower than normal?
A. That's my recollection.
Q. Given our previous discussion all things being equal, that would not be a positive sign or prices in the future?
A. That's correct.
Q. In other words, that would raise concerns about prices potentially escalating in the future just to be clear?
A. That's correct.
Q. Okay. And we also had a discussion earlier about a huge price spike that had occurred in February and March of 2003?
A. I recall it occurred in February of 2003.
Q. Okay. February of 2003. And that was in the double digit level, right?
A. That's my recollection, yes.

Q. So as Mr. Godat and other members of Laclede were looking at their planning for the upcoming year, they were faced with storage information that suggested that prices might be trending upward even further from where they were and they also had information available that showed there had already been huge price spikes earlier in the year; is that correct?
A. That's correct.
Q. And did those same factors concern staff as well at the time, say during the Summer of 2003?
A. Yes. I recall there were some concerns.
Q. Okay. And if I could show you a letter right here. Could you identify that letter for me?
A. This appears to be a letter dated June 18, 2003, from Tim Schwarz of the Commission staff to Michael Pendergast of Laclede.
Q. Okay. Are you generally familiar with the fact that the staff, given its concerns about where prices might be heading and what prices had already been felt, the reason past was trying to get information from LDCs about what their plans were

and what they intended to do?
A. Yes.
Q. Okay. And hence the letter being sent out to people like Mike Pendergast, correct?
A. Yes.
Q. Could you read me the first two paragraphs of that letter?
A. The natural gas market currently has very high prices and a number of groups suggest the natural gas prices may not go down before next Spring and may go even higher. A few factors at this time provide much comfort in this market. With even Fed Chairman Greenspan (s.i.c.) remarking on gas prices and inventory, staff anticipates continuing inquiries from the Commission and the press this summer. Given reports of storage nationally as 28 percent below the five year average, staff expects questions on the Missouri storage and hedging situation. Further, continuation of current prices even with normal winter weather could put a tremendous financial burden on Missouri's natural gas customers and also on local distribution companies by increasing collection and bad debt problems.
Q. Does that suggest to you that in the Summer of 2002 there was a concern on the part of the

staff about already high gas prices escalating even further?
A. Yes.
Q. And does the letter also indicate to you that staff was very interested in finding out what sort of hedging and contracting practices LDCs were taking to respond to those prices?
A. Yes.
Q. I guess you wouldn't be aware of whether or not people in Laclede's Gas Supply Department had had those same concerns transmitted to them that the staff had transmitted to me?
A. My perception would be that you forwarded this letter to those people and the Gas Supply Department.
Q. So they in all likelihood would have been fully aware of the staff's concerns about escalating prices and making sure that LDCs were doing what they could, hedging and otherwise, to address it, correct?
A. That's correct.
Q. Just to clarify, I think maybe you said the Summer of 2002. It was 2003; is that correct?
A. That's correct.

Q. Receiving a letter like that, Mr. Sommerer, would you say this was intended to be a signal to a company like Laclede that a practice it had followed for 10 years to hedge the intra month price of its supplies against significant price spikes through the payment of demand charges was one that the staff thought we should abandon?
A. I don't think I would take that implication from that letter either way. I would have thought that Laclede would have been looking at its purchasing practices and its hedging policy regardless of whether or not there was a letter from staff. Although the letter from staff may have highlighted some concerns that I'm sure Laclede shared, I would have anticipated that the review of existing practices and whether they were appropriate or not appropriate given the current cost would have taken place anyway.
Q. Well, just let me ask you this: Put yourself in Mr. Godat's shoes over here. He's sitting there. He knows that storage is low. He knows that there were these huge spikes, intra monthly price spikes in the previous winter. He's getting letters from staff talking about how it's bad and it could very well get worse and I need to know

what you're doing to go ahead and address this situation. In your view would that have been the ideal time to say I'm not going to go ahead and pursue this decade old practice of trying to hedge intra month price spikes by paying first month gas?
A. I think that Laclede should have looked at that practice closely when it saw producer demand charges going up. They were doubling. They hadn't done a study since 1996. They didn't do a study until after this ACA period. I think it would have been even more important to do a study rather than just by proposition, hold on to a practice. Laclede has also had a practice of buying first of the month pricing and they are heavily engaged in that practice. That should be reviewed every year. That practice has gone on for 10 years. That has a lot of exposure. That should have been looked at as well.
Q. So --
A. And it should be looked at every year.
Q. So your view is that Mr. Godat should have done the kind of study that you didn't do back in 1998 or 1996 when you said it was fine to cover 70 percent and spend $4 million on call options. It

wasn't enough to go ahead and look at the market and base it on your judgment and your experience and what you knew about what the market had recently done. Is that your testimony?
A. My testimony is that the '96 study should have been updated. It should have been reviewed in light of those increased producer demand charges.
Q. Okay. Well, in that case then, were you imprudent when you agreed to a $4 million expenditure and spend call options of 70 percent based on your knowledge of the market, your daily experience and your judgment back in 1996?
A. No.
Q. You were not imprudent?
A. That is correct. I was not.
Q. Okay.
A. Staff was not.
Q. Staff was not imprudent then. Okay. In that particular case, knowledge of the market, knowledge of your gas resources, knowledge of what had recently happened was fine. There was no need for a formal risk benefit analysis or study back then; is that correct?
A. That is correct.

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Q. Okay. And given these huge price spikes that you just talked about that had happened in February and March, should all of the other LDCs have been out there doing formal studies on first of the month pricing and what they should be doing to avoid those price spikes?

A. I think that that would have been reasonable for those LDCs to have done that. They chose to continue their longstanding practice of daily pricing. But they did not have formal studies.

Q. It would have been reasonable for them to do that. But they did not and they did not have formal studies and they have not provided it to you and you haven't proposed any kind of prudence disallowance with them, have you?

A. That's correct.

Q. Okay. In your testimony, Mr. Sommerer, you I think raise some concerns about Laclede's sale of gas and how it might potentially benefit LER?

A. That's correct.

Q. Okay. What specific sales of gas are you referring to?

A. This statement relates to off system sales that would be made to LER from Laclede.

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Q. Okay. And what sales in your review were improper, if any?

A. I have not made that allegation.

Q. Okay. So you're not alleging that any sales that were made to LER were improper?

A. That's correct.

Q. Did any sales of gas by Laclede to LER transgress any affiliate transaction rule to your knowledge?

A. Not to my knowledge.

Q. Okay. What benefit did LER receive from any sales of gas that Laclede may have made to it?

A. Presumably LER is able to take the first of the month pricing less whatever markup that Laclede adds to that to sell it to LER and remark that gas to an end user.

Q. Okay. And I guess I'm specifically asking you assuming that any of that was possible and that any of that was done, what financial benefit did LER receive from any of those potential transactions?

A. It certainly would go to their bottom line, to LER's bottom line. It's gas that's available that they may not otherwise have access to. It's gas that probably is sourced to a first of the

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month price. Therefore, by definition since they're buying the gas from Laclede there is some benefit there.

Q. I'm asking you what benefit did LER receive from that, and I'm asking you to give me some kind of quantification?

A. We do not have a quantification of what LER made off of those transactions. You would have to know the particular sales price that LER was able to achieve.

Q. Okay. Let's say that instead of selling them to LER we sold them to somebody else. Would all of the net margin associated with that have gone to Laclede in between its next rate case?

A. I think there is some trigger, some level, and I don't recall exactly what that was. Perhaps $12 million. Perhaps some combination of capacity release in off system sales where there is some sharing beyond a level.

Q. I think you're talking about 2005, aren't you, rate case?

A. That's correct.

Q. I'm back here in 2003-2004, which is I guess the period under consideration. Under those rules that were in effect at that time, if Laclede

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had made it to somebody else other than LER for a net margin, would Laclede have retained that margin?

A. Laclede would have retained all net margins over and above what they had already imputed from the rate case.

Q. And under those circumstances, what did Laclede have to gain by selling something at a lower net margin or selling it to LER rather than selling it to whoever they can get the best price for?

A. Well, you would hope that everything would be equal in the context of those transactions, and I don't know that they aren't. I don't know that they are. It's a continuing concern that gets beyond this particular ACA period. It was not looked at in great detail in this particular ACA period. But the point that I would make and it's concern that I have is that the profit is maximized at the LGC level. Not the LER level.

Q. And my question to you is if Laclede maximized those profits regardless of who it sold it to, it would go ahead and get the benefit of that in between rate cases, what incentive would they have to go ahead and, you know, sell it on favorable terms to LER?

A. Because potentially there could be a migration of the off system benefits from LGC to LER. Potentially there could be a split, and this is going to have to be ironed out through negotiations through LER and LGC on what the value of on what that first of the month package of gas is. You know what the first of the month price is. You know what the daily price is. You don't know what the value is that some end use in St. Louis is willing to pay for it. You don't know what the marketing company is able to extract. They'll get whatever the market is willing to bear inside St. Louis or outside St. Louis. So an example of what my concern would be is that end user is paying for the commodity at $15 in MCF, and LER in the transaction, the off system sales transaction to Laclede, gives Laclede $11. Laclede's source for that gas is $10. Now, stand alone you've got a dollar profit and stand alone LGC, it's in its best interest to maximize that profit and to push LER to try and make that sales price between LGC and LER $12 and $13. Now why couldn't Laclede pull $12 or $13 out of that transaction? It could be because all of the other producers that were also doing off system sales were only offering $11 and maybe the market was willing to pay $15. But as an affiliate you've got

to be concerned that, you know, it's arm's length and it's a fair allocation of the value of that deal.

Q. How many times did that sort of situation that you just described happen?

A. In my view, you have to have access to LER's books and records in order to ascertain that or to get your hands around that issue, and that may be something that we have to do.

Q. But to your knowledge, you don't have any evidence to suggest that it happened at any point in time, whether it was proper or not?

A. For this particular ACA period I have no evidence that there was an unfair allocation between the two companies.

Q. Or any violation of any affiliate transaction at all?

A. That's correct.

Q. So it would be fair to read your testimony as saying this is in my view a potential problem that might exist. But I have got no evidence to suggest there is anything inappropriate going on here. Would that be fair?

A. I think my testimony was trying to explain that this is an outlet for off system sales, and it's a potential benefit to an affiliate that you

have to consider when you're looking at off system sales. That's all I'm trying to say with this testimony.

Q. Okay. And to repeat what I said. You're not trying to say that anything inappropriate happened here. You're not trying to say that there was any violation of any affiliate transaction rule, and you don't have any evidence that LER inappropriately benefited from anything Laclede did. Would that be fair?

A. That's, that's a fair statement.

Q. Based on your general knowledge over the last 10 years, has most winters been warmer than normal in the St. Louis area, the Laclede service territory?

A. Generally speaking I would say in that 10 year period most winters have been warmer than normal, or certainly the majority of winters have been warmer than normal.

Q. And if it had been colder or even normal over that period, is it your anticipation that Laclede would have utilized more swing supplies than it did over the last 10 years?

A. I don't know.

Q. In contracting for various pricing

mechanisms and that sort of thing, should an LDC do its planning based on an anticipation of normal weather?

A. Normal is one thing that the LDC should look at. But it also should look at colder than normal weather. It should be looking at cold peak days. It should be looking at late season peak days. It should be taking a look at warmer than normal weather. It should be taking a look at history and the whole variability that you can see.

Q. And what sort of impacts various of those circumstances could have on pricing?

A. That's correct.

Q. Okay. Are you aware of whether the staff did a management audit of Laclede's gas supply function in 2004, 2003?

A. I recall that the Management Services Department or the Commission staff performed review of Laclede's various areas of Laclede's operations. I do not recall the specific date of that review.

Q. So you don't recall what kind of recommendations they may have made?

A. Generally speaking in the area of gas supply I am familiar with those recommendations, yes.

Q. And do you know whether they raised

any question about the propriety or prudence of paying demand charges on swing supplies?
A. I do not think their report addressed that area.
Q. So what's the purpose of a management audit in your understanding?
A. Just based upon my general experience, and these may vary depending upon the scope of the audit or the particular Commission mandate. But I think it's to look at important aspects of the company's operations or their inefficiencies. Are there good controls in place? Is there good documentation? Call centers are often looked at. Number of complaints. The interaction between the utility customers and itself with regard to various billing issues and accounting issues. There are often very broad looks, high level looks at many aspects of the company's operation.
Q. Well, if it's one that specifically devoted to looking at the gas supply function, would it be fair to take from your statement that they would look at what kind of practices the company is following in procuring gas?
A. I would think it would be a fairly high level review. But certainly they would be

asking for the company's practices, any reports that they do routinely, how they document their decisions, various ways that the company monitors its own practices. Perhaps management services would have brought in experiences from other LDCs. But it's a fairly high level overview.
Q. Okay. Well, it would be a high level overview of important things like what's your general procurement process, what's your general hedging process? I mean would those be the kind of high level kind of things you would look at, your basically gas contracting practices? Is that high level enough?
A. I think that's fair, yes.
Q. Okay. Is it your understanding that when a management audit like that is specifically performed on a particular area that if they see something that's not best practices or something that can be improved, some sort of deficiency, that they will note that in their recommendation?
A. I think if they saw something that was material, that was an area that could be improved or was an area of concern or a finding that they made, they certainly would bring that forward, yes.
Q. And to your knowledge in this

particular audit that was done of our gas supply function immediately before or even during this 2003-2004 ACA period, no concern was raised about the prudence of spending money on demand charges to get FOM pricing for swing supplies?
A. That's correct.
Q. In talking about what you say were the deficiencies for Laclede's 1996 study, is it fair to say that if Laclede had done that same kind of study in 2003 the same way it had done it back then, that even though you thought it was flawed as you so clearly state you think it is in your testimony, that that would have been sufficient for you to justify Laclede's decision on swing supplies?
A. No. I don't think it would have been. I think the study was flawed, and I think that we would have raised those same concerns.
Q. Okay. So it wasn't just that Laclede didn't do a formal study in 2003. But it's because Laclede didn't do a formal study in 2003 the way staff suggested it should have been done in, what is it, 2007?
A. I think we would have had those concerns given that same study and would have brought those forward if Laclede would have done the same

type of study it would have done in 1996.
Q. Okay. So Laclede would have in your view not only had to have done a study to avoid your imprudence allegation. But would have had to have done it in a way you now think it should have been done?
A. Yes.
Q. Okay. You talk about the studies flawed in your view because, number one, it didn't show or subtract out reservation charges that wouldn't have been paid had Laclede not done FOM pricing; is that correct?
A. I believe that's correct.
Q. Okay. And Laclede's study showed how much in savings, about $20 million, about $16 million?
A. Which study are you referring to?
Q. The 1996.
A. I have the 1995-1996 study showing a total difference of $20,680,614.
Q. Okay. Well, if you corrected, and I use the word corrected because you're indicating that you think it should be corrected to remove reservation charges. What impact would that have on the savings that were shown, do you know?

A. Well, there are certain recommendations the staff has made that would be difficult to quantify in the context of this study. We believe that it was appropriate to pull out base load combination and swing supply. If you look at this study, it's not readily apparent what's base load combination of swing. So to recalculate the study using that recommendation I think it would be very difficult to do unless you had the underlying data. One thing you could do with the study would be to look at the reservation, and as I look at it it looks like Mr. Jaskowiak used the same first of the month reservation prices under both scenarios. But he did provide a footnote saying, listen, daily pricing would probably yield a much lesser reservation charge. So that's something that you may want to think about. That's not part of this study.

Q. Okay. And you don't know what those reservation charges were?

A. Based upon general experience, and this is going back quite a number of years. But over time it's unusual to see reservation charges when you have daily prices over two or three cents in MCF. They're fixed charges. They're fixed upon maximum daily quantity. But you're just looking at two or

three cents.

Q. Well, and I appreciate the number. But I'm trying to relate it to the $20 million there. How would it have changed that $20 million, do you know?

A. I haven't made that calculation, and I don't know.

Q. Okay. And how about if you didn't include the off system sales as you say shouldn't have been included?

A. I don't know that impact either.

Q. Okay. And from re-dispatching, assuming re-dispatching was even possible, you don't know what that factor would be?

A. That's correct.

Q. Okay. Now, in your testimony you indicate the fact that you can utilize FOM pricing on swing supplies to make off system sales is something that shouldn't even be considered by Laclede when it decides whether to contract for that; is that correct?

A. I think both pricing provisions ought to be considered. When you're doing the request for proposal at the start of the winter, I think Laclede ought to look at both ways of pricing swing supply.

It should look at first of the month pricing, which it does when it does do an RFP. But it should also ask what the premium or the reservation cost, the producer demand charge should be when it has a daily pricing provision for swing supply.

Q. Well, I guess what I'm asking is is it your testimony or not that in determining whether it's prudent to pay demand charges on first of the month pricing whether Laclede should take into consideration the fact that that first of the month pricing permits it to make off system sales revenue by making off system sales?

A. I don't think that that should be considered in the analysis.

Q. Okay. So customers have gotten millions of dollars worth of benefits over the years, haven't they, from off system sales?

A. On an accumulative basis I would agree that the customers have received benefits from off system sales, and it probably totals in the millions of dollars.

Q. But your testimony is that in determining whether it's appropriate to make that kind of expenditure we should just completely ignore the fact that those benefits are produced, is that

you're saying, that those customer benefit?

A. I think when you're looking at producer demand charges off system sales should be considered incidental. They should be considered incidental to that decision. The primary decision is what is the most reliable and cost efficient way of setting up my swing contract. I can't guarantee what the pricing difference is. I don't know whether this is going to result in off system sales or not. There may be some potential there certainly with first of the month pricing. But I think it's inappropriate to allow some sort of credit in the analysis for off system sales.

Q. So your view would be -- let's say would have 10 years of experience and that 10 years, let's say it's been done with, you know, the dispatching thing you're talking about. The results show that over that 10 years when you look at the net benefits of avoiding price spikes and you look at the average amount of off systems sales that FOM pricing has permitted Laclede to make over that period of time, that it's a net benefit to customers. And let's say that those off system sales have incurred in varying amounts but on average you've say made $5 million a year. Let's just say $5 million.

Are you saying that when we would decide whether to continue that practice in the future we should ignore that 10 years of history in off system sales?

A. I think with respect to trying to figure out the appropriate pricing provision, the off system sales decision should be made outside of the context of choosing between whether you're going to go with a daily or a first of the month pricing provision for swing supply.

Q. So you would have Laclede's gas personnel sit down, evaluate that situation and say, okay, make this decision assuming that no off system sales will be generated from this. Pretend those off system sales don't exist?

A. I wouldn't say pretend don't exist. But I do not think that should be the driving factor, the primary factor, the over arching goal of trying to come up with a pricing provision.

Q. Nobody talked about a driving factor or over arching goals, Mr. Sommerer. What I was asking you was whether we should completely ignore it or not, and I thought your testimony was it ought to be completely ignored. Now is that not the case?

A. I think for purposes of looking at that pricing provision, off system sales that may

result from swing supply should not be credited to that decision. There should not be a credit for off system sales. Your use of the word ignore or pretend that they don't exist, I guess I would take issue with that.

Q. There is a difference then between not crediting anything for it and completely ignoring them?

A. Yes.

Q. What's that difference?

A. Here is the problem that you get into when you try and consider off system sales and the benefits that they may derive. The question is really a situation of what might have been. Trying to figure out whether there was extra capability in the combo, the combination contracts to create an off system sale. We've been told that off system sales are made sometimes on what's been characterized as a value creation or working capacity differentials. So there are other ways to make money with off system sales other than first of the month pricing.

So if you try and bring that in to the analysis, how much of a credit do you provide for off system sales? The vast majority of off system sales are in my view made possible by combination

contracts because that's where most of the capability exists in Laclede's supply portfolio. There is first of the month pricing available and flexibility with those combination agreements. Those agreements probably comprise 60 percent of Laclede's portfolio. In any given year there may be some unutilized capability within those contracts. When Laclede chooses to make an off system sale, it may choose to -- it needs to use the highest cost of gas. It needs to look at that pursuant to the tariffs. But it may choose to use swing supply. It may choose to use a combination supply and allocate that particular package of supply. To Laclede, I don't know that it matters except to the extent they're watching their minimum requirements with the combination contracts. But it still is a first of the month price.

So that being said, I believe that it is extremely problematical to allow any credit for off system sales when you're looking at that swing supply pricing decision.

Q. In this case, did you specifically identify off system sales that had been made utilizing swing supplies?

A. We identified the volumes related to off system sales.

Q. That had been made utilizing swing supplies?

A. That's correct.

Q. Okay. So under the scenario I gave you with the 10 year look, you would simply go ahead -- what would you do, simply look at what the FOM pricing approach produced and what would have been produced under a daily pricing approach?

A. In terms of trying to evaluate whether or not to go with a daily pricing scenario.

Q. Right.

A. You know, it's really two things. You make sure that the request of proposal has that price within it so you know what the daily pricing would be. The staff has also suggested in subsequent actual cost adjustments that Laclede look more closely to combination supply and perhaps subdividing some of that. Laclede I think tends to construct their combination supply using 70 percent minimum requirements. That's somewhat of an unrelated issue.

And then, you know, the study should be modified. It should be done. But I think it needs to be done as staff has suggested. You remove the effects of off system sales. You isolate these various types of supply between base load, combination and swing, and I think you also have to annualize, which is something that Laclede hasn't done, what the current producer demand charges are. Because what these studies do is they pretend, maybe not a good use of the word, that the producer reservation charges are still $4 million or $6 million. They just kind of roll those fixed costs up. But if you're in the $20 million environment, that's the ongoing cost for producer demand charges. That's likely more relevant than a producer demand charge that Laclede may have paid for first of the month pricing back in 1998 or 1999.

Q. Let me ask you about the annualization thing. When you developed your disallowance did you try and annualize? Did you try and assume what the circumstances would have been if we had had say normal weather?

A. We used Laclede -- the way that Laclede scheduled the gas is the way that we analyzed the disallowance. We didn't try to redispatch or change the --

Q. So you didn't try to make a determination of what the cost, relative cost benefits would have been from FOM pricing and not having FOM pricing had there been normal weather?

A. That's true.

Q. Okay. When Laclede made its prudence decision on whether or not it moved forward, should it have assumed warmer than normal weather?

A. I think Laclede has to assume its supply decisions consistent with its designed winter and --

Q. So Laclede should have assumed abnormally cold weather when it made its decision on whether to procure the right to purchase swing supplies at the first of the month; is that what you're saying?

A. I think it's one consideration that Laclede has to look at. I mean abnormally cold weather, Laclede has a 35, 36 winter. It makes certain assumptions about what storage is available. I think it runs its base load, combination and swing contract MVQ under those particular days that were experienced in that winter, 35, 36, as updated by current consumption patterns. Then there is a comparison that's made to attempt to make sure that you don't have excess flowing supplies more than what you need.

Q. Uh-huh.

A. But enough that you have enough

contracted for to meet those contingencies.

Q. Okay. To get back to my question on making a decision on whether it was prudent to pay for the right to obtain FOM pricing on its swing supplies, Laclede should have assumed a cold design winter was going to occur; is that what you're saying?

A. Well, I think when you're setting up the maximum daily quantities for flowing supply, that's one decision. How much base load, how much combination, how much swing. The decision to go with daily pricing versus first of the month pricing is probably -- well, you need to have some sense of how much the swing pricing is going to be used under various conditions. I think it would be important to look at warmer than normal, colder than normal and normal when you're taking a look at those fixed costs. If you're only going to use the swing contracts 25 percent of the time under normal conditions, I think that probably would have some impact on whether or not to use first of the month pricing or daily pricing.

Q. Okay. So is it your testimony then we should have looked at colder than normal, normal and warmer than normal in making a decision?

A. I think that would have been an item that should have been looked at, yes.

Q. And when you made your recommended prudence disallowance, did you go back and try and say, well, how would this have turned out under colder than normal, normal and warmer than normal?

A. We just experienced the winter as it was experienced in '03-'04 as Laclede ordered the supply.

Q. And is it your understanding that 2003-2004 was warmer than normal?

A. That's my recollection, yes.

Q. So to just take a shortcut on it. You used a warmer than normal actual scenario, is that correct, as it occurred?

A. In order to calculate the disallowance, that's correct.

Q. Okay. Well, in any event, let's say a study is done just like you would have it done completely excludes any consideration of off system sales, you know, just pretend they don't even exist, and somehow does this dispatching business. If those results over a 10 year period showed that hedging at the first of the month with FOM pricing and paying demand charges to do it had on balance produced a few more million dollars of additional costs, would it be your position that you shouldn't do it in the future?

A. No. No. It would not be.

Q. Okay. If it showed break even, would you say keep on doing it?

A. I'd have to look at the particular facts and circumstances. In that limited example I'm just reluctant to make a decision on what will pass a prudence review given an isolated set of circumstances because we don't know, you know, what the company is looking at, all of the factors it's considering, what the market is at that particular point in time. I would want to know exactly what the prices were, what the volumes were, you know, what the storage was, what the base load, combo and swing is, what the premiums were before I made that decision.

Q. Okay. Well, just so I'm clear then, as we sit here today, your view would be that Laclede was imprudent not just because it didn't do what you say is a formal study. But even if it had done a formal study it would have had to have gone ahead and done it your way, whether it was the way we did it in the past. And even if we did it your way, what you're saying is you can't tell me today what results

in your view would have gone ahead and justified continuing the practice; is that a fair statement?

MR. REED: I'll object to the form of the question.

A. No. When you put it in that context, I think based upon what we've seen if Laclede would have done the study as we suggested it, it would have come to the conclusion that daily pricing was appropriate. That's what I would have recommended in that particular situation.

Q. (By Mr. Pendergast) Wait a minute. You say if we had done the study as he wanted us to do it we would have reached the conclusion that daily pricing was appropriate?

A. Yes.

Q. So you've done that study?

A. No.

Q. Okay.

A. No, I haven't.

Q. So your guess is that we would have come to that conclusion?

A. No. Laclede didn't do the study. They should have done the study as staff suggested. We showed that there was harm in '03-'04 because Laclede did not use daily pricing. Based upon this

increase in cost, if I would have made that decision, and I think that's a fair question and if I would have been in Laclede's shoes I would have chosen daily pricing, I would have done it on a study like I've suggested. I disagree with Laclede's decision.

Q. So you're telling me that if you had been in Laclede's shoes, even though you don't know what the answer to the question is given the way you would have done the study and what its results would be, despite that lack of quantification, you nevertheless would have chosen daily pricing?

A. Well, I think I would have had in hand a study. But it would have been, you know, again, I have access to Laclede's database. I have access to their original study. I have access to the Jaskowiak study. I have access to all of the material that was provided. So if I'm in Mr. Godat's shoes, I have access to those numbers. I perform the study. Yes. I think what we've suggested here is if you do the study in that fashion I think the conclusion that you arrive at is that there aren't major savings associated with this review.

Q. Oh, okay. So is the standard for determining whether it's prudent to move forward and pay those demand charges for FOM contingent on

whether there are major savings associated with it? Is that the standard?

A. I think the standard is you look at the comparison between first and month pricing and daily pricing. You segregate base load, combination and swing. You remove the impact of off system sales.

Q. Uh-huh.

A. You conduct an RFP with both pricing provisions so you have a sense of what that pricing is. You consider the current level of pricing. You use all of that information that Laclede would have access to at the time it made its decision, and I think you come up with a conclusion of when you do that that a daily pricing would have been appropriate.

Q. You think you come up with a conclusion that daily pricing would have been appropriate based on what quantitative analysis that you have performed?

A. Staff has reviewed Laclede's study and, you know, not only did we find a $10 million in Laclede's study which brought the perceived benefits of this down to something like $9 million, the current level of producer demand charges are in

excess of $20 million. The benefits don't justify the cost. So even using Laclede's own study where we didn't have the ability to refine it because we didn't have the underlying data, you can make that conclusion just based upon the work that Laclede has done.
Q. So you're saying that it ought to be based on what happened in the single ACA year or it should be based over what's happened over many years? What are you saying?
A. The damages have to be calculated based upon what's happened in the single ACA period.
Q. Okay.
A. You compare what's happened versus your view of what would have been prudent, a prudent decision.
Q. So Laclede should have made a decision in the Fall of 2003 on whether to do this or not based on what actually turned out to have happened in 2003-2004?
A. No. But you cannot make a disallowance until you know what the result is.
Q. Well, I'm not asking you about your disallowance. I'm asking you about your standards for what Laclede should have done to make in your

view a prudent decision on it.
A. Absolutely.
Q. And what I'm asking you is what kind of study results would have suggested to you that this was a prudent practice to follow?
A. Yes. And what I have tried to explain is that you -- it's reasonable to look at a number of years, and staff has suggested the way that it would have performed the study, a way that it believes that Laclede should have performed the study. When you just take a look at a couple of corrections, the study doesn't yield the millions of dollars of benefits you're talking about. You'll get to a certain point where as a staff you can't even go any further than that. There are improvements to this study, the 2005 study, that we would suggest. But we simply didn't have the raw data to go ahead and run those improvements. But even looking at the correction of errors and acknowledging that you have $20 million in annual demand costs suggests that there aren't any savings that are produced by first of the month pricing. So the staff focused on a particular aspect of Laclede's pricing that to us was more logically priced at a daily price, and that's the basis of staff's disallowance. So if you ask me

what prudent behavior would have been if I would have been in Laclede's shoes, I'm saying, yes, do the study. Have it updated. Do it before the fact, not after the fact like Laclede did it, and make these changes. If you ask me specifically what my savings would have been to prove that the daily pricing was the way to go, I simply would have said if you make a couple of changes to the Laclede study that was on hand, or could have been on hand certainly, I just don't see the decision to go forward with first of the month pricing for swing supply.
Q. Mr. Sommerer, what I'm asking you is given a study that's done the way you want it done, what would that study have to show for you to make a determination it was prudent to continue that practice?
A. Yes. I would say the benefits need to exceed the costs.
Q. Okay. So the savings associated with doing this have to exceed the cost of doing it; is that correct?
A. That's correct.
Q. Okay. Is that your same view on hedging practices undertaken by LDCs?
A. Well, with regard to hedging, market

pricing can be below or above a cost of a hedge. Therefore, if you're using the term savings as some sort of market comparison, I would certainly say that you're going to have to figure that there are benefits to be achieved from the hedging in addition to any savings that you might achieve.
Q. So you're saying that over the long term the benefits from hedging have to exceed the cost in order for it to be prudent to continue hedging?
A. No. No. If you're defining benefits as beating some market price, you know, hedging should be done regardless of whether the hedging results in savings. If your definition of savings is I'm going to compare what I hedge at, which might be $8.
Q. Uh-huh.
A. And the winter turns out to be a warm and that the index prices are $6, the question is are there savings? Do I have to see savings in order to recommend a continuation of that hedging practice? I would say if that's your definition of savings, then I would say no.
Q. Okay. So is it fair to say then that in terms of, you know, purchasing call options and

fixed price contracts and other things that address price volatility, that the prudence of doing that and continuing to do that is not dependent upon whether or not it costs more compared to a market price to do that than what you saved by doing that; is that fair?

A. I think in the context that I'm understanding your question, that's a fair statement. I'd have to clarify by saying that hedging has costs --

Q. Sure.

A. -- that should be looked at and evaluated, and that's something that is critical in the overall hedge decision when you're deciding what instrument to use, how much to use, the timing on when you use it. Certainly cost enters into that overall decision. So, you know, I'd say when you're looking at the ultimate outcome or whether you beat the market or you don't beat the market, that's not a critical decision. That's irrelevant.

Q. And even if you over time on average fail to beat the market, in other words, you pay more because you hedge than you would have if you didn't, it's still prudent to do so; is that correct?

A. All other things being equal, that you had prudent hedging, that your use of the

instruments was prudent, that you looked at reasonable levels of hedging, that the process was prudent that you had in place, the controls that you had in place, you could have hedge costs that were higher year after year and still have a prudent process for hedging.

Q. Okay. And still have a prudent process for hedging. So whether you had net customer benefits or not, benefits being determined by what would the world have been like if you had hedged versus how much would you spend and what were the results if you did, you don't have to have positive customer benefits?

A. I think you would want to factor in the intangible benefits which are difficult to quantify in terms of the price stability. That's part of the reason why you would hedge is not to save money. But you're trying to address the price exposure and the upward price volatility. So that would certainly enter into your decision to hedge or not hedge.

Q. Okay. And when you say price volatility, you're talking about price volatility like the $20 increase and intra month prices that happened in February of 2003? Is that the kind of

volatility you're talking about?

A. I am talking about both kinds of volatility, monthly volatility and daily volatility.

Q. There is an intangible value that should also be factored in; is that what you're saying?

A. There is an intangible value that should also be considered when you're addressing monthly and daily volatility, yes.

Q. When you're addressing both. Okay. So to the extent that first of the month addresses the daily volatility though, are you suggesting that if you follow a consistent practice of doing that first of the month, that unlike the hedging scenario that we talked about or the financial instrument that we talked about involving fixed price contracts longer than 30 days and what have you, if you're going to do the, you know, that you only hedge it for a month using first of the month pricing, that has shows net benefit? That has to in contrast to the other kind of hedging?

A. I certainly think that the net benefits need to be shown in more of a concrete way because I don't agree with the theory that first of the month pricing is a hedge. It's certainly not

hedge of first of the month exposure, and the daily exposure that you have is more complicated than simply the difference between first of the month and daily price exposure since I believe storage sometimes can be used or combination contracts to mitigate that exposure. So now it does become very important to look at when that exposure occurs, how often does it occur. Yes. It's bad to pay $20 per MCF. But if you paid if for three days and producer demand charges are a billion dollars, clearly you would agree with me that it's not cost beneficial anymore. So you have to look at the cost. You have to look at the benefits. You have to make some assumptions of, you know, when that exposure is occurring.

Q. And my only question to you, Mr. Sommerer, is if you do these studies the same way that you would have them done and if those studies went ahead and indicated -- well, whatever those studies indicated, would your view be that if it's first of the month pricing with the cost consequences calculated in the way I think they should be with the kind of study that should be done, they have to show a net benefit for me to determine that it's prudent. Whereas over here with respect to hedging and other kinds of things, they don't have to show a net benefit. Is that your view?

A. Yes, it is.

Q. Okay. And it's not even good enough that it comes out even?

A. I think if it comes out even, again, everything else being equal, I would tend to use first of the month pricing given a proper analysis simply because I do agree there is less volatility in the first of the month market. I'm not totally convinced that I would make that decision because I would want to take a look at what I could do with storage. But, again, all of those things being considered and the use of storage and combination agreements, if it was a break even then I would probably lean towards first of the month pricing.

Q. Okay. But as we sit here today, you don't have any quantitative basis where you can give hard firm numbers that would suggest what the relative impact has been of either using first of the month pricing or not using first of the month pricing for Laclede or any other LDC in this state; is that a true statement?

A. No, because hard and firm numbers include Laclede's own study, and I've looked at

Laclede's study. I've made recommendations with regard to improvements for the study. We've done some analysis on the impact of whether Laclede's savings would have resulted if you include some of staff's suggested improvements. As an example of that we made the error correction which brought this study, this 2005 study down from some $20 million down to $9 or $10 million. If you simply do the mathematical calculation of taking producer demand charges of $20 million, which is the going forward number for producer demand charges, and you compare that to Laclede's calculation without doing any redispatch or any rescheduling, the study doesn't support the first of the month decision. Those are hard numbers. Those are concrete numbers.

Q. What I'm asking you -- okay. So you've identified excluding all systems sales in this case a $2 million a detriment, is that correct, in your review?

A. That's correct.

Q. Okay. And for the '96 study I thought you indicated to me earlier you haven't tried to recalculate it excluding off system sales or doing it the way staff thought it should be do or anything else; is that correct?

A. That's correct.

Q. And aside from this single year where you indicate that in your view by excluding off system sales it was a $2 million detriment, I'm asking you do you have any, and where it was normal than warmer too, do you have any quantified study or analysis that would show how FOM has worked out in comparison to non FOM for utilities throughout Missouri?

A. No.

Q. Okay. And my other question for you would be is the staff about the only person that can perform that kind of analysis?

A. Which kind of analysis?

Q. An overall evaluation of whether FOM versus non FOM approach has been beneficial or not for all utilities in Missouri?

A. I don't know the answer to that question.

Q. Well, is it your belief that I can go and get all of that information from MGE and they'll just hand it over to me and I can see how it's worked out for them?

A. If MGE releases the data then it's your possibility.

Q. Has it been your experience that that generally isn't provided very readily in ACA proceedings?

A. Each company has its own threshold of what it believes is confidential. Some LDCs open a lot of their records a lot more extensively than others. So I really can't comment on what MGE would be willing to provide.

Q. Do you know whether the staff has indicated that it can provide some information to us that we requested in this proceeding because it's confidential?

A. I think that's the case.

Q. Okay. Well, let me rephrase the question. Is the staff in the best position given its access to all of this information without competitive concern or proprietary concerns to do that kind of overall evaluation?

A. I would say given the company's access to data in an electronic form it would require a cooperative effort. It would be something that the staff would be in a position to coordinate if that were the goal to answer this question for a five year period of time. But you would be reliant upon the companies to have that data in an accessible and reasonable form. It may not be feasible for the staff to pull together so many numbers from so many different areas, make classifications that would require an extensive amount of contract review. Some of the data may not be available in the way that you need it. So I wouldn't say that the staff would be in the best position, be in a position that certainly would be to get access to the data and see the data.

Q. And that's not a formal analysis that staff has done?

A. That's correct.

Q. That's not a study that staff has undertaken in the past nor apparently intend to undertake in the future?

A. That's correct.

MR. PENDERGAST: Okay. Let's take a few minutes and let me discuss some things.

(A brief recess was taken at this time.)

MR. PENDERGAST: I'm finished with him.

MR. REED: Do you want to read it over and make sure there are no typographical errors.

THE WITNESS: I would like to do an errata.

MR. PENDERGAST: I would like to get

this by Friday. E-mail is fine.

MR. REED: E-mail will be fine.

SIGNATURE NOT WAIVED

*****

NOTARIAL CERTIFICATE

I, Stephanie D. Darr, and Certified Court Reporter for the State of Missouri and a duly commissioned Notary Public within and for the State of Missouri and do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn by me; that the testimony of said witness was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

____

Stephanie D. Darr, CCR

STATE OF ____________)

)

CITY OF ____________)

I, DAVE SOMMERER, do hereby certify:

That I have read the foregoing deposition;

That I have made such changes in form and/or substance to the within deposition as might be necessary to render the same true and correct;

That having made such changes thereon, I hereby subscribe my name to the deposition.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this __________ day of ______________,

20____, at ____________________________.

____

DAVE SOMMERER

My Commission Expires: ____________________

Notary Public: ____________________

Signature Page Sent to: Steven C. Reed

DAVE SOMMERER
DEPOSITION CORRECTION SHEET

In re: The Matter of PGA Filing for Laclede Gas Company

Reported by: SDD

Upon reading the deposition and before subscribing thereto, the deponent indicated the following changes should be made:

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SIGNATURE OF DEPONENT

Midwest Litigation Services
711 North Eleventh Street
St. Louis, Missouri 63101
Phone 314/644-2191

January 22, 2007

Steven C. Reed
PUBLIC SERVICE COMMISSION
200 Madison Street
Jefferson City, Missouri 65102

In Re: The Matter of the PGA Filing for Laclede Gas Company

Dear Mr. Reed:

Please find enclosed your copies of the deposition of Dave Sommerer taken on January 18, 2007, in the above-referenced case. Also enclosed is the original signature page and errata sheets.

Please have the witness read your copy of the transcript, indicate any changes and/or corrections desired on the errata sheets, and sign the signature page before a notary public.

Please return the errata sheets and notarized signature page to Michael Pendergast for filing with the court prior to trial.

Sincerely,

Stephanie D. Darr, CCR
Enclosures
cc: Michael Pendergast
File