

Exhibit No.:
Issue: ACA Adjustment
Witness: George E. Godat
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Laclede Gas Company
Case No: GR-2004-0273
Date: November 30, 2006

LACLEDE GAS COMPANY

GR-2004-0273

SURREBUTTAL TESTIMONY

OF

GEORGE E. GODAT

NOVEMBER 30, 2006

1 **SURREBUTTAL TESTIMONY OF GEORGE E. GODAT**

2 Q. What is your name and address?

3 A. My name is George E. Godat, and my business address is 3950 Forest Park
4 Boulevard, St. Louis, Missouri 63108.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by Laclede Gas Company (“Laclede” or “Company”) in the
7 position of Director of Gas Supply.

8 Q. Are you the same George E. Godat who previously filed direct and rebuttal
9 testimony in this proceeding?

10 A. Yes, I am.

11 **PURPOSE OF TESTIMONY**

12 Q. What is the purpose of your surrebuttal testimony?

13 A. The purpose of my surrebuttal testimony is to respond to the various assertions
14 made by Staff witness David Sommerer in his rebuttal testimony regarding the
15 matters at issue in this case. Specifically, I will address the inaccuracies in the
16 claims Mr. Sommerer has made in support of Staff’s proposed disallowance
17 concerning ** _____

18 _____ ** In this testimony, I am also
19 correcting an error made in calculating the comparison of ** _____

20 _____ ** The correction reduces the
21 benefit shown in the analysis but the savings ** _____ ** are still

1 more than \$10 million over the previous five years. The corrected chart, for the
2 five-year period ending just prior to the 2003/2004 ACA year is attached hereto as
3 Schedule 1.

4 Q. At page 1, line 22 of his rebuttal testimony, Mr. Sommerer states that “the
5 Company failed to develop a timely analysis to evaluate ever increasing
6 **_____** Please state why you disagree with this
7 statement.

8 A. As I explained in detail in both my direct and rebuttal testimonies, the Company
9 was well aware of increases over a multi-year period in the volatility and cost of
10 gas, and corresponding increases **_____**
11 _____** After careful consideration, we still viewed **_____**
12 _____** as a reasonable value, and a logical option for our
13 customers. In fact, in 2003, we had just experienced huge savings **_____**
14 _____** in two of the three previous winters, those two being 2000/2001 and
15 2002/2003. **_____** had been especially helpful in that immediately
16 previous winter when prices trended steadily up all winter before spiking in early
17 2003. This realtime experience is validated by the chart attached in Schedule 1.
18 Given the volatility and price levels during this period, it was clear that **_____**
19 _____** had provided significant value, and I was not surprised to see an
20 increase in the premiums for this option. In contrast, after a decade of watching
21 Laclede successfully purchase **_____** Staff’s decision to
22 suddenly move from making no comment at all **_____**

1 to a disallowance based on a hindsight review of only one year is decidedly
2 arbitrary, unfair and inappropriate.

3 Q. At page 2, lines 7-18 of his rebuttal testimony, Mr. Sommerer cites the
4 Commission's Order on Rulemaking in Case No. GX-2002-478 (Commission
5 Rule 40.018) to indicate that the Commission firmly rejected **_____** as
6 a method to address upward price volatility. Is Mr. Sommerer correct?

7 A. No. The testimony in that case referred generally to index contracts which can
8 include those contracts **_____**
9 _____** While Laclede would not argue that daily pricing
10 mitigates volatility, **_____**
11 _____** Nowhere in the order does the
12 Commission specifically refer to **_____** when discussing indexed
13 contracts. All parties and the Commission do anticipate that indexed contracts
14 will be part of a well-structured gas purchasing portfolio. And I believe that
15 paying the cost to have the option (but not the obligation) to buy swing supply gas
16 **_____** falls within the scope of Rule 40.018(2)(H), as
17 another tool "utilized in the market for cost-effective management of price and/or
18 usage volatility."

19 Q. Why do you believe that the right **_____** addresses market price
20 risk?

21 A. Laclede nominates and buys gas supply on both a monthly and daily basis. In
22 doing so, Laclede faces risk in the monthly and daily markets, by virtue of its
23 exposure to market price volatility in each of those markets. Therefore, the

1 relevant price risk the Company must hedge is the risk in the monthly and daily
2 markets. ** _____ ** As
3 the Commission recognized in Rule 40.018(1)(C), part of any portfolio may be
4 above the spot market price at times. However, Laclede's experience has been
5 that purchasing the right to ** _____ ** has been beneficial to customers,
6 and this experience is confirmed by the two studies performed by the Company.

7 Q. Have you had any indication that Mr. Sommerer also thinks that ** _____
8 _____ **

9 A. Yes I have. In a response to Laclede Data Request No. 6 in this case, which I
10 have attached hereto as Schedule 2, Mr. Sommerer agreed that ** _____
11 _____ ** and he cited a March 2002 report by John
12 Herbert as a basis for his opinion.

13 Q. If Mr. Sommerer believes that ** _____
14 _____
15 _____ ** a tool for Laclede to help mitigate price volatility for its customers?

16 A. Yes it would. ** _____
17 _____
18 _____
19 _____
20 _____
21 _____
22 _____
23 _____

1

2

**

3 Q. On page 3, line 19, of Mr. Sommerer's rebuttal testimony, he states that when
4 asked, Laclede could not identify another LDC that uses Laclede's approach to
5 swing pricing, and cites Laclede's response to a data request as Schedule 2. Do
6 you believe Mr. Sommerer has properly construed Laclede's response to that data
7 request?

8 A. I do not. While Laclede did not cite another company by name, Laclede
9 explained that Companies respond to Laclede's RFP requests with quotes "**__
10 _____**" because such pricing is common in the marketplace. Mr.
11 Sommerer's position is akin to saying that just because I did not identify an
12 individual that has used Jiffy Lube for an oil change, then obviously no one goes
13 to Jiffy Lube to get their oil changed.

14 Q. Mr. Sommerer also states that no other LDCs in Missouri entered into "**____**"
15 swing contracts for 2003/2004. Has Laclede ever asked Mr. Sommerer why he
16 believes that the other LDCs' approach is superior to Laclede's?

17 A. Yes. We asked Mr. Sommerer in Data Request No. 3 in this case, and his
18 response is included in the attached Schedule 2. Mr. Sommerer stated that "Each
19 LDC's approach is dependent upon unique characteristics of their service areas
20 such as size, storage availability, storage restrictions. Thus, Staff's review of other
21 LDC information would not be specifically applicable to Laclede because their
22 service areas and characteristics are not the same."

1 Q. If Mr. Sommerer believes that each LDC is unique, why would he rely on the
2 practices of these other Missouri LDCs as a basis for his disallowance in this
3 case?

4 A. I don't know. His position on that point is inconsistent with his answer to Data
5 Request 3.

6 Q. Did Laclede purchase the right **_____** because others were doing it?

7 A. No. Mr. Sommerer is trying to claim that **_____**
8 _____** is so unusual and unheard of as to be imprudent on its face. Based on
9 his own research, Mr. Sommerer himself knows that **_____**
10 _____

11 _____** Laclede purchased the right **to FOM pricing** not because others
12 were doing it, but because Laclede had already been doing it for many years and
13 without protest from Staff, because Laclede had performed a study that indicated
14 that **_____** could not only serve as a hedge against the volatility **__
15 _____** but could also produce significant benefits for customers, and
16 because Laclede's experience in the market since performing the study led it to
17 believe that **_____** remained a beneficial option for customers, which
18 experience was validated by the updated five year study, a copy of which is
19 attached as Schedule 1.

20 Q. On page 5, line 11, Mr. Sommerer attributes to you the belief that Laclede should
21 purchase **_____** regardless of the price charged by
22 producers. Is that a true statement?

1 A. No, it is not true. I, and my colleagues, recognized that ** _____
2 _____ ** as were the underlying commodity prices and price
3 swings. Given the circumstances in the market as we approached the fall of 2003,
4 we were worried that prices would continue to rise as winter weather increased
5 demand. The Commission Staff was also concerned that prices were going to run
6 higher during the 03-04 winter season.

7 Q. Please explain why you think the Staff was concerned that gas prices would
8 increase in the 03-04 winter period.

9 A. Laclede and Staff had exchanged information a number of times in the spring and
10 summer of 2003, prior to Laclede contracting for the supplies in question in this
11 case. On June 18, 2003, Staff sent Laclede a request for information on the status
12 of Laclede's natural gas purchases. In that information request, which is attached
13 hereto as Schedule 3, the Staff expressed its concern that gas prices are very high
14 and may even go higher. Staff added that "few factors at this time provide much
15 comfort in this market" and cited the fact that storage nationally was 28% below
16 the five-year average.

17 Q. In a market where prices are generally increasing, is it better to buy ** _____
18 _____ **

19 A. It is better to buy at ** _____
20 _____
21 _____
22 _____ **

1 Q. On page 5, line 19, Mr. Sommerer says that Laclede did not negotiate with
2 suppliers for ** _____

3 _____** Did Laclede look at alternatives to traditional combo and swing for
4 some of its supplies?

5 A. Yes. In addition to reducing the overall level of supply we put under contract for
6 2003/2004, as I explained in my prior testimony, Laclede also negotiated for a
7 less flexible contract structure with Oneok on 40,000 MMBtu/day of supply. This
8 contract had minimum monthly takes, which is less flexible but also less costly
9 than the annual take requirements in our standard combo contracts. While this
10 contract provided some flexibility at a modest cost, ** _____

11 _____**

12 Q. On pages 2-3 of his rebuttal testimony, Mr. Sommerer states that ** _____

13 _____

14 _____

15 _____

16 _____** Are these positions inconsistent?

17 A. Absolutely. It is undeniable that customers have benefited from Laclede's efforts
18 in making off-system sales. It is also true that ** _____

19 _____** Mr. Sommerer is taking the

20 unconscionable position of, on the one hand, criticizing Laclede for ** _____

21 _____** that benefits customers

22 while, on the other hand, refusing to give the Company any credit at all ** _____

23 _____** in calculating his proposed disallowance.

1 Q. On page 8 of his surrebuttal testimony, Mr. Sommerer denies that the proposed
2 disallowance violates the Stipulation and Agreement in Case No. GR-2002-356.

3 Do you agree?

4 A. No. As Staff has conceded, ** _____

5 _____** Staff's proposed disallowance directly affects revenues the Company
6 should have an opportunity to earn in exchange for the imputation guarantee
7 provided in Laclede's rates. This violates paragraph 12 of that Stipulation and
8 Agreement.

9 Q. Does this conclude your testimony?

10 A. Yes it does.

11

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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

AFFIDAVIT


STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

George E. Godat, of lawful age, being first duly sworn, deposes and states:


1. My name is George E. Godat. My business address is 3950 Forest Park, St. Louis, Missouri 63108; and I am Director-Gas Supply of Laclede Gas Company.

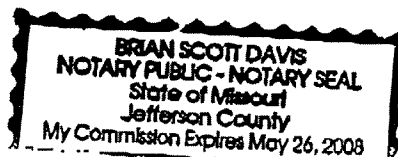
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony, on behalf of Laclede Gas Company.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.


George E. Godat

Subscribed and sworn to before me this 30th day of November, 2006.


Notary Public



****Highly Confidential****

Staff's Responses to Laclede Data Requests

3. On page 4 line 3 of his Direct Testimony, Mr. Sommerer states that Staff cannot find another local distribution company in Missouri in or after 2003/2004 that

** _____ **

a. Is Staff aware of any other local distribution companies in Missouri that contracted for swing supply in a similar fashion in any of the 5 years prior to 2003/2004?

No, not to Staff's recollection.

b. If the answer to 3a is yes,

i. Please state which companies (you may use a symbol in order to keep the Company name confidential), and which years those companies ** _____

_____ ** N/A

ii. Please explain why you believe those companies no longer use this practice of buying gas supply. N/A

a. Please provide Staff's analysis that shows whether or not the other LDCs' approach is superior to Laclede's approach. Please provide all analysis in electronic format.

Each LDC's approach is dependent upon the unique characteristics of their service areas such as size, storage availability, storage restrictions. Thus, Staff's review of other LDC information would not be specifically applicable to Laclede because their service areas and characteristics are not the same. This conclusion is based on Staff's general knowledge.

6. In your opinion, ** _____

_____ ** Please provide the analysis in electronic format.

Yes, in an absolute way, looking at pricing alone without regard to actual exposure to daily price volatility. For some general observation, see John Herbert March 2002 report entitled "The General Report on Analysis of Gas Supply and Hedging Practice by Regulated Natural Gas Utilities in Missouri report. Also see various references to daily volatility from 3c. above.

SCHEDULE 3



WC

JUN 19 2003

Commissioners
KELVIN L. SIMMONS
Chair
CONNIE MURRAY
STEVE GAW
BRYAN FORBIS
ROBERT M. CLAYTON III

Missouri Public Service Commission

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June 18, 2003

ROBERT J. QUINN, JR.
Executive Director
WESS A. HENDERSON
Director, Utility Operations
ROBERT SCHALLENBERG
Director, Utility Services
DONNA M. PRENGER
Director, Administration
DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge
DANA K. JOYCE
General Counsel

Michael C. Pendergast
Laclede Gas Company
720 Olive Street, Room 1520
St. Louis, MO 63101

RE: Laclede Gas Company Natural Gas Purchasing Status

Dear Mike:

The natural gas market currently has very high prices, and a number of groups suggest that natural gas prices may not go down before next spring and may go even higher. Few factors at this time provide much comfort in this market.

With even Fed Chairman Greenspan remarking on gas prices and inventories, Staff anticipates continuing inquiries from the Commission and the press this summer. Given reports that storage, nationally, is 28% 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.

In order to answer anticipated questions in a timely and meaningful manner, Staff is asking each Missouri LDC to advise Staff of the following (assuming normal weather conditions):

1. The company's current inventory of natural gas in storage expressed by volume and as a percentage of the maximum storage quantity available to the company; and the weighted average cost of this storage inventory.
2. The company's current expectation for percentage of maximum storage quantity that they will have injected into storage by November 1, 2003.
3. The company's current expectation of total heating season demand (November 2003 through March 2004) that will be met through storage withdrawals.

Michael C. Pendergast
June 18, 2003
Page 2

4. The company's current expectation of total heating season demand (November 2003 through March 2004) that will be met through deliveries from fixed-price contracts; and the weighted average cost of these fixed price contracts.
5. The company's current expectation of total heating season demand (November 2003 through March 2004) that will be met through deliveries from contracts priced off of daily or monthly indexes.
6. The company's current expectations for price and availability of natural gas through March 2004.
7. The company's price strategies and hedging plans in place, including the use of storage if feasible, through March 2004. If you have no hedging plans, please note that fact.
8. The company's current level of under recovery of gas cost expressed in dollars and as a percentage of total annual gas cost.
9. The company's current dollar level of uncollectibles; number of disconnected customers; and average amount owed per disconnected customer.
10. Any other actions taken, or anticipated to be taken, to address the current natural gas market environment.

Staff asks that this information be provided as of June 15th, August 15th and October 15th, as soon as practicable after each date. Your thoughts, comments, suggestions and questions in addition to the requested information would be greatly appreciated.

If you have any questions, please call Warren Wood (573 751 2978), Dave Sommerer (573 751 4356) or Tim Schwarz (573 751 5239).

Sincerely yours,



Thomas R. Schwarz, Jr.
Deputy General Counsel
(573) 751-5239
(573) 751-9285 (Fax)

TRS:sw