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

SURREBUTTAL TESTIMONY OF GEORGE E. GODAT

Q. What is your name and address?

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

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

A. I am employed by Laclede Gas Company ("Laclede" or "Company") in the position of Director of Gas Supply.

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

A. Yes, I am.

PURPOSE OF TESTIMONY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the various assertions made by Staff witness David Sommerer in his rebuttal testimony regarding the matters at issue in this case. Specifically, I will address the inaccuracies in the claims Mr. Sommerer has made in support of Staff's proposed disallowance concerning **certain demand charges paid by Laclede to reserve and fix on a monthly basis the price of its swing supplies.** In this testimony, I am also correcting an error made in calculating the comparison of **purchasing gas at a first-of-month ("FOM") price versus a daily price.[1]** The correction reduces the benefit shown in the analysis but the savings **from FOM pricing** are still

[1] The error arose from a 2000/2001 contract that was based on the average of two indices. One of the two indices did not post a price during the months of January and March 2001 due to the lack of trading activity at that location, causing the average cost to be significantly understated for those two months.

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

Q. At page 1, line 22 of his rebuttal testimony, Mr. Sommerer states that "the Company failed to develop a timely analysis to evaluate ever increasing **producer demand charges."** Please state why you disagree with this statement.

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

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

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

A. No. The testimony in that case referred generally to index contracts which can include those contracts **based on monthly, or FOM prices, along with contracts based on daily indexes.** While Laclede would not argue that daily pricing mitigates volatility, **certainly FOM pricing addresses market risk associated with daily, or intra-month, volatility.** Nowhere in the order does the Commission specifically refer to **FOM pricing** when discussing indexed contracts. All parties and the Commission do anticipate that indexed contracts will be part of a well-structured gas purchasing portfolio. And I believe that paying the cost to have the option (but not the obligation) to buy swing supply gas **at the FOM index price** falls within the scope of Rule 40.018(2)(H), as another tool "utilized in the market for cost-effective management of price and/or usage volatility."

Q. Why do you believe that the right **to FOM pricing** addresses market price risk?

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

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

Q. Have you had any indication that Mr. Sommerer also thinks that **daily prices are more volatile than FOM pricing?**

A. Yes I have. In a response to Laclede Data Request No. 6 in this case, which I have attached hereto as Schedule 2, Mr. Sommerer agreed that **daily prices are more volatile than FOM prices,** and he cited a March 2002 report by John Herbert as a basis for his opinion.

Q. If Mr. Sommerer believes that **daily prices are more volatile than FOM prices, wouldn't that make a contract that is based on FOM pricing, rather than daily pricing,** a tool for Laclede to help mitigate price volatility for its customers?

A. Yes it would. **Mr. Sommerer tries to claim that Laclede can depend on storage and combination contract gas, rather than swing supply, when daily prices are higher than FOM price; but he provides no basis for this position. As I have explained in prior testimony in this case, storage gas provides a very limited amount of relief from price increases because of the limited nature of this resource, the need to husband storage gas to meet a late season peak requirement, and limitations imposed by MRT's storage tariff. The fact is that when it gets cold, Laclede must call on its swing supplies to meet the needs of its customers,

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and if the contracts are based on daily prices, Laclede will be forced to pay the daily prices, just at a time when they may be at peak levels.**

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

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

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

A. Yes. We asked Mr. Sommerer in Data Request No. 3 in this case, and his response is included in the attached Schedule 2. Mr. Sommerer stated that "Each LDC's approach is dependent upon 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."

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

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

Q. Did Laclede purchase the right **to FOM pricing** because others were doing it?

A. No. Mr. Sommerer is trying to claim that **buying swing supply at FOM pricing** is so unusual and unheard of as to be imprudent on its face. Based on his own research, Mr. Sommerer himself knows that **paying demand charges for FOM pricing is a common and even prudent option for buying swing supplies.** Laclede purchased the right **to FOM pricing** not because others were doing it, but because Laclede had already been doing it for many years and without protest from Staff, because Laclede had performed a study that indicated that **FOM pricing** could not only serve as a hedge against the volatility **of daily pricing,** but could also produce significant benefits for customers, and because Laclede's experience in the market since performing the study led it to believe that **FOM pricing** remained a beneficial option for customers, which experience was validated by the updated five year study, a copy of which is attached as Schedule 1.

Q. On page 5, line 11, Mr. Sommerer attributes to you the belief that Laclede should purchase **swing supply at FOM pricing** regardless of the price charged by producers. Is that a true statement?

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

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

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

Q. In a market where prices are generally increasing, is it better to buy **at FOM pricing or daily pricing?**

A. It is better to buy at **FOM pricing. If prices are generally trending up on a daily or weekly basis, the FOM price, set prior to the beginning of a month will generally be lower than the daily prices during that month. In such a market, FOM prices would help insulate our customers from intra-month price spikes.**

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Q. On page 5, line 19, Mr. Sommerer says that Laclede did not negotiate with suppliers for **alternate demand charges for swing contracts priced at daily prices.** Did Laclede look at alternatives to traditional combo and swing for some of its supplies?

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

Q. On pages 2-3 of his rebuttal testimony, Mr. Sommerer states that **Laclede seeks to obtain the right to FOM pricing so it can promote off-system sales, while at pages 6-7, he insists that, in calculating the disallowance on FOM demand charges, Laclede should receive no credit for the benefits customers derive from off-system sales.** Are these positions inconsistent?

A. Absolutely. It is undeniable that customers have benefited from Laclede's efforts in making off-system sales. It is also true that **FOM pricing on swing supplies promotes opportunities to make such sales.** Mr. Sommerer is taking the unconscionable position of, on the one hand, criticizing Laclede for **taking advantage of FOM pricing to make off-system sales** that benefits customers while, on the other hand, refusing to give the Company any credit at all **for these FOM-derived benefits** in calculating his proposed disallowance.

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

A. No. As Staff has conceded, **<u>FOM pricing on swing supply supports off-system sales.</u>** Staff's proposed disallowance directly affects revenues the Company should have an opportunity to earn in exchange for the imputation guarantee provided in Laclede's rates. This violates paragraph 12 of that Stipulation and Agreement.

Q. Does this conclude your testimony?

A. Yes it does.

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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

<u>AFFIDAVIT</u>

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.

Brian Scott Davis
Notary Public

BRIAN SCOTT DAVIS
NOTARY PUBLIC - NOTARY SEAL
State of Missouri
Jefferson County
My Commission Expires May 26, 2008

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SCHEDULE 1

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0304 ACA

			Purchases	Commodity Based on 1st of month	Actual 1st of month Demand	Total Cost	Commodity Based on Gas Daily	Gas Daily Demand 12.5%	Total Cost	Difference
Oct-98	to	Apr-99	58,613,782	$104,000,263	$4,023,093	$108,023,356	$103,094,098	$502,887	$103,596,985	($4,426,3[illegible])
Oct-99	to	Apr-00	59,844,261	$142,304,656	$5,931,883	$148,236,539	$146,081,448	$741,485	$146,822,933	($1,413,60[illegible])
Oct-00	to	Apr-01	69,384,841	$437,251,557	$10,955,089	$448,206,646	$454,760,013	$1,369,386	$456,129,399	$7,922,753
Oct-01	to	Apr-02	60,345,453	$140,477,066	$10,962,379	$151,439,445	$146,713,510	$1,370,297	$148,083,807	($3,355,6[illegible])
Oct-02	to	Apr-03	68,849,168	$330,875,771	$11,909,197	$342,784,968	$353,531,583	$1,488,650	$355,020,233	$12,235,265
										$10,962,403

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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 **pays fixed charges for the right to pay an FOM price for swing supply.**

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 **paid fixed charges to purchase swing supply at FOM pricing;** 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, **are daily prices more volatile than FOM prices? Please provide all analysis Staff has performed to determine if daily prices or FOM prices are more volatile.** 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 2

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SCHEDULE 3

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JUN 19 2003

Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
http://www.psc.mo.gov

June 18, 2003

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.

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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,

Tim

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

TRS:sw

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