Exhibit No.:	
Issue:	**ACA Adjustment**
Witness:	**George E. Godat**
Type of Exhibit:	**Rebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No:	**GR-2004-0273**
Date:	**October 19, 2006**

LACLEDE GAS COMPANY

GR-2004-0273

REBUTTAL TESTIMONY

OF

GEORGE E. GODAT

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REBUTTAL TESTIMONY OF GEORGE E. GODAT

Q. What is your name and address?

A. My name is George E. Godat, and my business address is 720 Olive Street, St. Louis, Missouri 63101.

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 testimony in this proceeding?

A. Yes, I am.

PURPOSE OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the various assertions made by Staff witness David Sommerer in his direct testimony regarding the matters at issue in this case. Specifically, I will address the inaccuracies in many of the claims Mr. Sommerer has made in support of Staff's proposal to disallow **certain demand charges paid by Laclede to reserve and fix on a monthly basis the price of its swing supplies.**

PAYING DEMAND CHARGES TO STABILIZE THE PRICE OF SWING SUPPLIES IS NOT A UNIQUE PRACTICE

Q. On page 4, line 1 of his direct testimony, Mr. Sommerer states that **"paying fixed demand charges to producers for the right to pay an FOM [First of the Month] commodity price for swing supply is unique to Laclede Gas Company, for the Missouri LDC's."** In your view, does this suggest that **paying demand

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charges to hedge the intra-month price of swing supplies** is an unusual or uncommon practice?

A. No, not at all. If Mr. Sommerer looked outside of Missouri or surveyed gas producers, as I have, regarding the practice **of buying FOM index supply,** he would find that a large number of LDCs **pay demand charges for this type of service.**

A. Why do you believe this to be the case?

A. When Laclede sends out its Request For Proposal ("RFP") **for swing supplies, it receives bids from a large number of suppliers that bid this service on the basis of FOM pricing, which includes a component in the demand charge for obtaining such pricing. They bid on this component because it is a type of instrument that trades actively in the market place.** Indeed, producers have indicated by both their actions and their words that this is a common practice for LDCs when contracting for gas supplies. This is supported by a recent study released by the AGA in July 2005 entitled *"LDC Supply Portfolio Management During the 2004-2005 Winter Heating Season,"* which concluded that **"[w]hen examining the purchase practices of companies during the past winter heating season, it is clear that first-of-the-month index pricing dominates the market for long- and mid-term supply agreements."** As a result, I think it is highly misleading to imply that Laclede's practice **of paying demand charges to hedge the intra-month price of its swing supplies** is somehow unique. In fact, just the opposite is true.

STORAGE GAS AND PROPANE CANNOT BE SUBSTITUTED FOR SWING SUPPLIES

Q. On pages 13-14 of his direct testimony, Mr. Sommerer suggests that Laclede could **simply use its storage gas and propane supplies to offset intra-month spikes in the price of flowing gas supplies and that, consequently, there is no reason to pay demand charges to fix the monthly price of swing supplies.** Do you agree?

A. No, such a view is completely inconsistent with my experience in managing Laclede's gas supply, storage and propane requirements

Q. Please explain.

A. All of these assets have to be managed on a daily and monthly basis to ensure two things, namely that Laclede's customers receive reliable gas supplies each and every day and that all of Laclede's contractual requirements for purchasing, transporting and storing gas and propane are met.

Q. Is the amount of gas used by Laclede's customers fairly consistent throughout the winter or does it change day by day?

A. The majority of Laclede's customer demand is very weather sensitive; therefore the demand can increase or decrease by huge increments from one day to the next. **Our total system usage can be as high as 1,100,000 MMBtu/day, and as low as 150,000 MMBtu/day all within the same monthly period.**

Q. Are all of these daily system requirements met with daily gas supply purchases that are transported on pipelines to Laclede's city gate?

A. Actually, **Laclede relies on a relatively small percentage of daily flowing supplies in order to meet its peak day requirements.**

Q. Please explain how Laclede meets its peak day requirement if it is not met by flowing purchases.

A. Laclede's 03-04 Reliability Report lists the potential peak day requirement in January to be **1,129,100 Mcf/day.** For the month of January 2004, Laclede only had **426,000 Mcf of supply under contract (or only about 38% of its peak requirements). The remaining 62% would have been met with supplies from MRT storage and from Laclede's on-system storage and propane, had this peak day been experienced.**

Q. Are there limits on the amount of storage that Laclede can take from its MRT storage to meet its requirements?

A. Yes. MRT storage not only has a limited amount of flexibility from month to month, but its monthly withdrawal requirements are also fairly strict. Therefore, MRT storage must be monitored very closely to make sure that gas is still available late in the season when it may be needed, while at the same time ensuring that all of the daily and monthly withdrawal requirements of MRT's storage tariff are met.

Q. Is there a limited amount of on-system storage available to meet Laclede's peak requirements?

A. Yes. During an extended cold period, Laclede can exhaust its on-system storage capability in **less than a month's time,** and will not likely be able to replenish the storage until warmer weather allows extra pipeline supply to be injected back into Laclede's on-system storage field.

Q. Do these storage constraints limit the amount of high-priced swing supply that Laclede can avoid by using its storage in place of daily flowing supplies?

A. Yes. **By design, Laclede's portfolio is already set up to rely very heavily on storage withdrawals to meet our winter requirements, which limits our customers' exposure to run-ups in winter gas prices. In other words, Laclede has already done what it can to limit the amount of supply it has put under contract which also means that Laclede must call on its flowing supplies when it gets cold in order to preserve its storage to meet peak days late in the winter season.**

Q. Did Laclede take any extra measures during the 03-04 ACA period to reduce flowing supplies under contract as far as possible?

A. Yes, as Laclede explained to Staff in a conference call on June 6, 2005, there was a late start to the winter in 2003 and Laclede's storage inventory on the MRT system was higher than normal going into the heart of the winter. **Laclede used this opportunity to reduce the amount of both the baseload and swing supply it put under contract for the 03-04 winter and relied on the extra storage available to meet its needs. Given these additional efforts that Laclede had already made to reduce its flowing supplies, and the long-standing constraints that prevented Laclede from reducing them even further, there is simply no basis for Staff to assert that the Company could have used storage gas and propane to avoid exposure to swing supplies. Given this exposure, paying demand charges to obtain FOM pricing on swing supplies was and continues to be a prudent decision.**

A FORMAL STUDY WAS NEITHER A NECESSARY NOR APPROPRIATE PREREQUISITE TO CONTINUING THE LONG-STANDING PRACTICE **<u>OF PAYING DEMAND CHARGES ON SWING SUPPLIES</u>**

Q. In apparent support of its assertion that Laclede should have done a formal study on **<u>whether to obtain FOM pricing on its swing supplies for the 03-04 winter heating season,</u>** Mr. Sommerer notes, at page 10 of his direct testimony, that the last such study provided by Laclede on this subject was done in May of 1996 (the "1996 study") or about seven years prior to **<u>the increase in producer demand charges during the subject ACA period.</u>** Why did Laclede provide a study that was seven years old in response to Staff's request for such information?

A. As I stated on page 8 of my direct testimony, the Gas Supply department at Laclede Gas did not need a formal study to know **<u>that it had been beneficial to purchase FOM swing supply, because we had seen the benefits that these contracting practices were providing on a daily basis while managing our gas supply portfolio.</u>** Nor was there any reason for Laclede to believe that the Staff wanted or needed such a study in order to determine the prudence of this long-standing practice that, with Staff's full knowledge, had been an integral part of our gas supply procurement process for the ten years prior to the 03-04 ACA period. Nevertheless, at Staff's request, Laclede provided the 1996 study to Staff, and promptly began work on an updated study which ultimately confirmed, as Laclede believed it would, **<u>the benefits of reserving swing supply at FOM pricing</u>.**

Q. Did Laclede provide the results of the updated study to Staff?

A. Yes. Laclede provided the results of a five year study for the 1998 to 2003 period to Staff in August 2005, just three months after Staff requested the study and four months prior to Staff's filing of its recommendation in this case. But for some reason unknown to me, Mr. Sommerer has chosen to ignore both the statements by Laclede **<u>regarding its informal daily monitoring of the value of FOM pricing on swing supplies,</u>** and its updated formal study that covered the five-year period ending just prior to the time Laclede assembled its 03-04 supply portfolio. Instead, Mr. Sommerer focuses only on the age of the 1996 study in his direct testimony.

Q. Mr. Sommerer stated on page 12, line 19 of his direct testimony that Laclede provided no discussion on the methodology used in the 1996 study. Was the updated study that Laclede provided in August 2005 performed in a manner similar to the 1996 study, and were the procedures used to produce the study and results discussed with Staff?

A. Yes. The updated study was done consistent with the approach used in 1996. Laclede had extensive conversations with Staff regarding the updated study and, at the request of the Staff, provided Staff with all the raw data used in the study.

Q. What were the results of the updated study that Laclede provided in August 2005?

A. The updated study showed that **<u>purchasing gas supplies at FOM pricing created a substantial benefit over the five year period, even after subtracting out the estimated demand charges associated with FOM pricing.</u>**

Q. On page 13 of his direct testimony, Mr. Sommerer criticizes the 1996 study (which was updated in 2005) because Laclede did not create a scenario to redispatch daily supplies **<u>prior to comparing the FOM price to daily prices.</u>** Please explain why Laclede did not try to redispatch its supplies.

A. The supplies were not redispatched in the 1996 study or when it was updated in 2005, because such an action would be totally arbitrary. Laclede has told the Staff on numerous occasions, including in a conference call with Staff in connection with this case, that Laclede must consider a whole host of factors when deciding whether or not to add or cut gas supplies. It would be meaningless and misleading for Laclede to do a hindsight redispatching of gas supplies for each day of a five year period **based solely on the daily price for that day as compared to first of month prices.** Furthermore, as I explained earlier in my testimony, Laclede does not have the kind of flexibility in its use of storage and propane supplies that Mr. Sommerer suggests, making a redispatching nothing more than an academic exercise.

Q. **On page 15 of his direct testimony, Mr. Sommerer criticizes Laclede for not eliminating all FOM supply used for an off-system sale when determining the cost vs. benefit of FOM supply. Why didn't Laclede exclude gas that was assigned to an off-system sale from its analysis?

A. In order to be able to assess the true value of holding the right to purchase at FOM prices, the study should include all FOM purchases, including those that are assigned to off-system sales, because the gains from these sales also accrue to the benefit of customers. In addition, had the weather pattern been different than it was on the days the gas was assigned to a sale, Laclede could just as easily have used that supply for its customers' needs. In either case, it is a benefit realized because Laclede had reserved the right to FOM pricing.**

Q. How is the analysis that Mr. Sommerer used to calculate the disallowance in this case different than the approach Laclede used in its 1996 study and the updated study provided in 2005?

A. It is different in three main respects. First, Mr. Sommerer completely ignored the data provided by Laclede for the five years prior to the 03-04 ACA period, which was the information that was essentially available to Laclede at the time it arranged its supply portfolio for the 03-04 period. **Instead, Mr. Sommerer performed a study only on the actual prices for the 03-04 period. Second, Staff only focused on the swing contracts, while Laclede's study included all types of supply. Third, Laclede's study includes all costs associated with FOM demand charges and all net revenues derived from FOM purchases, while the Staff's study includes all costs associated with FOM demand charges, but inappropriately ignores net revenues derived from those FOM purchases that were assigned to off-system sales, even though customers share in those net revenues.**

Q. **On page 17 line 5, of his direct testimony, Mr. Sommerer says that Laclede knew, or should have known, from the responses it received to its RFP that demand charges were going to increase for the 03-04 period. Was Laclede surprised by the increase in demand charges for FOM-priced supplies?**

A. No. As I explained in my direct testimony, the Staff, the Commission and all of the other LDCs in Missouri, were acutely aware of the extreme price run-ups that had occurred in December 2000 and in February 2003. Producers, marketers, buyers and other industry participants also knew that there was a distinct possibility that such intra-month run-ups could happen again, and that the effect might even be worse in the then current higher price environment, particularly if we actually experienced cold weather or a disruption in supply. **All of these factors were, and should have been, reflected in the demand premiums for FOM supply. Based on these circumstances, and on the results of the RFP process, Laclede reasonably believed at the time that the market had efficiently priced these demand charges, and that it was fully appropriate to pay such prices for the FOM supply contracts. In sharp contrast, the Staff has proposed a disallowance of these demand charges based on a pure hindsight comparison of a single winter period, using information that could not possibly have been available to Laclede at the time that it contracted for its gas supplies.** For all of these reasons, as well as those discussed in my direct testimony, I believe that Staff's proposed disallowance should be rejected by the Commission.

OTHER MATTERS

Q. **On page 18 of his direct testimony, Mr. Sommerer states that FOM index pricing is not a hedge. On page 9 line 7, Mr. Sommerer also states "When the daily price of gas is higher than the FOM price, this creates value for Laclede." Do you believe Mr. Sommerer is mis-characterizing the nature and value of the FOM option?

A. Yes. Prior to and during the 03-04 ACA period, Laclede contracted for FOM commodity priced gas because it believed that this was the best approach available to minimize intra-month volatility for its customers. Like other hedging instruments, paying demand charges for FOM prices is like buying an insurance policy that will protect Laclede's customers in the event prices rise significantly

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during any 30 day period. When the daily price is higher than the FOM price, Laclede's customers can benefit by utilizing the cheaper FOM gas. Thus, FOM pricing accomplishes the very same price stabilization objective as other hedges, such as financial instruments. In addition, when demand from Laclede's customers is down, Laclede may be able to reduce the cost of the policy or, put another way, optimize its value, by making off-system sales that capture the difference between the daily price and the FOM price for the benefit of both Laclede and its customers.**

Q. Were these off-system sales revenues then shared with Laclede's customers?

A. Yes, as I discussed in my direct testimony, these off-system sales revenues were shared with Laclede's customers. They should accordingly be taken into consideration in determining the cost and benefits of Laclede's practice **of paying demand charges on swing supplies.**

Q. How do you respond to Mr. Sommerer's contention on pages 18-19 of his direct testimony that such off-system sales revenues should not be taken into account because they might have been realized **by Laclede even if the Company had not had swing gas at FOM pricing?**

A. I find such a contention very difficult to accept. The Staff has asserted or implied in various proceedings, including this very one (see for example, Sommerer Direct, p.9, line 7), **that Laclede pays demand charges on its swing supplies, in part, to ensure that it will have the favorably-priced, intra-month gas supplies necessary to make off-system sales when gas is not temporarily needed by Laclede's customers. When it comes to recognizing the revenues from such sales as an offset to these demand charges, however, the Staff suddenly suggests that there is really no connection between the Company's ability to make such sales and its payment of such charges.** Needless to say, the Staff cannot have it both ways and the Commission should reject Staff's transparent effort to overstate the costs and understate the benefits associated with this long-standing practice.

Q. Do you have any comments regarding Mr. Sommerer's statement at page 19, lines 16-18 of his direct testimony, that Laclede’s marketing affiliate **appears to “significantly participate in off-system sales transactions,” suggesting that Laclede may be paying demand charges and making off-system sales in an effort to benefit its affiliate, LER?**

A. Yes. It is not at all clear to me why Mr. Sommerer would make this observation or what possible relevance he thinks it has to the issues in this case. To make sure the record is clear, however, it should be noted that during the subject ACA period, Laclede’s marketing affiliate, known as LER, **purchased only about 3% of the total volume of off-system sales made by Laclede. Given this very small percentage, I think it is misleading to claim that LER “significantly participated” in off-system sales made by Laclede.**

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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 rebuttal 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 19th day of October, 2006.

Brian Scott Davis
Notary Public

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