

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2013-0253, Laclede Gas Company

FROM: Anne M. Crowe, Regulatory Auditor - Procurement Analysis
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Kwang Y. Choe, Ph.D., Regulatory Economist - Procurement Analysis

/s/ David M. Sommerer 12/12/13 /s/ Jeffrey A. Keevil 12/12/13
Project Coordinator / Date Staff Counsel / Date

/s/ Lesa Jenkins P.E. 12/12/13
Utility Regulatory Engineer II/ Date

SUBJECT: Staff's Recommendation in Case No. GR-2013-0253, Laclede Gas Company's
2011-2012 Actual Cost Adjustment Filing

DATE: December 12, 2013

I. EXECUTIVE SUMMARY

On October 31, 2012, Laclede Gas Company (Company or Laclede or LGC) filed its Actual Cost Adjustment (ACA) for the 2011-2012 period in case GR-2013-0253. The filing contains the Company's ACA balances as of September 30, 2012.

Laclede Gas Company serves approximately 628,000 residential, commercial and industrial customers in the St. Louis metropolitan area and surrounding southeastern counties.

The Commission's Procurement Analysis Unit ("Staff") has reviewed the Company's ACA filing. Staff's review included an analysis of billed revenues and actual gas costs for the period October 1, 2011 through September 30, 2012. Staff conducted a reliability analysis for Laclede, including a review of its estimate of customers' needs on a peak day (peak day requirements) and the capacity levels to meet those requirements, peak day reserve margin and its rationale, and a review of gas supply plans for various weather conditions. The Staff also reviewed Laclede's gas purchasing practices to determine the prudence of the Company's purchasing and operating decisions. (Laclede Gas Company's marketing affiliate Laclede Energy Resources is referred to as LER).

Staff has proposed no dollar adjustments to the Company's ACA account balances filed October 31, 2012. However, the following Table of Contents provides a guide to Staff's comments and recommendations contained in sections I through VI of this Memorandum:

Section No.	Topic	Page
I	Executive Summary	1
II	Reliability and Gas Supply Analysis	2
III	Lange Underground Storage Non-recoverable Gas	6
IV	Refund of Missouri Pipeline Company Overcharges	7
V	Hedging	8
VI	Recommendations	9

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

II. RELIABILITY AND GAS SUPPLY ANALYSIS

As a regulated gas corporation providing natural gas service to Missouri customers, the Local Distribution Company (LDC) is responsible for: 1) conducting reasonable long-range supply planning and 2) the decisions resulting from that planning. One purpose of the ACA process is for Staff to review the Company's planning for gas supply, transportation, and storage to meet its customers' needs. For this analysis, Staff reviewed Laclede's plans and decisions regarding its estimated peak day requirements, its capacity levels to meet those requirements, its peak day reserve margin, Laclede's rationale for this reserve margin, and its natural gas supply plans for various weather conditions.

Although Staff has proposed no financial adjustments related to Laclede's reliability analysis and gas supply planning, Staff has comments and concerns. The following is a list of those comments and concerns regarding reliability analysis and gas supply planning:

A. Laclede's Justification for Pipeline Storage and Pipeline Transportation Contracts

Laclede's Centerpoint Energy Gas Transmission (CEGT)-Mississippi River Transmission (MRT) storage contract and various transportation contracts expired in October 2012 and April and October 2013.

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_____ ** Storage is included in Laclede's analysis of upstream capacity requirements. The Company evaluates its capacity in a planning process to meet a cold winter that includes a late winter 5-week cold period and late winter peak cold day. Laclede's MRT storage tariff has minimum and maximum monthly withdrawals. ** _____

_____ ** The end of the withdrawal season for Laclede's MRT

storage contract is May 15, but Laclede's supply plans provided no explanation of the storage balance that must remain at the end of April to meet the supply plans or upstream capacity requirements through the end of the withdrawal season.

Laclede has made Staff aware that it made changes to the MRT storage and transportation contract, but the details of the changes and the justification for the changes have not been provided. The Laclede explanation for its storage and transportation capacity negotiations and contract revisions should explain how it considered the various transportation contracts and its storage planning for its severe winter planning. Because of the timing of the storage and transportation contract terms, the appropriate ACAs to review the Laclede contract volumes are the 2012/2013 and 2013/2014 ACA periods.

B. Laclede's Gas Supply Planning Request for Proposal (RFP) Process - Documentation of Supply Bids Received, Bid Evaluation, and Supply Award Process

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C. Gas Supply Reservation (Supply Demand) Charges

There are gas supply reservation (supply demand) charges which are fixed costs associated with Laclede's combination and swing supplies, even when the weather is mild and not as much natural gas is needed.

As background, gas supplies are often priced at a "First of Month" (FOM) index price which represents setting the price of a contract based upon a reference price developed by a specific gas industry publication. This FOM price, once published, becomes the prevailing price for gas taken under a contract for the entire month.

Another pricing mechanism sometimes used is called a "Gas Daily" Daily (GDD) price. This price is also a reference or index price but is calculated by an industry publication for a specific day. The daily prices change from one day to the next based upon daily transactions, which is not like the FOM price that, once it is set, is the same for the entire month.

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The 8/14/2013 Order Approving Stipulation and Agreement, Granting Waiver, and Approving Cost Allocation Manual, effective 8/24/13, in GC-2011-0098, and various Laclede ACA cases from 2004-2005 through 2010-2011, approved a Stipulation and Agreement in which Laclede agreed that it shall conduct and submit to Staff and the Office of the Public Counsel ("OPC") no later than November 1, 2013, a current multi-year study (to include a minimum of 3-years of data) showing whether demand charges for swing gas and the pricing option of Lower-of FOM Index or Daily Index have resulted in a gain or loss to customers, as previously recommended by Staff in Case No. GR-2012-0133. Laclede also agreed that it will supplement this study with two additional years of recent data and provide such supplement to Staff and OPC by February 1, 2014.

Laclede provided information for Lower-of FOM Index or Daily Index demand charges on 11/1/2013. The Laclede analysis lists the demand charges for the three years of data provided. Laclede also compares the daily and monthly price for each day. If the daily price is greater than the monthly price it calculates the difference as a savings. If the daily price is not greater than the monthly price it records zero. Therefore, Laclede would characterize the "lower of" FOM or Daily as realizing savings when daily gas prices exceeded the FOM prices for a given month. Laclede does not compare the swing demand charges for the lower of option to the demand charges for swing gas priced at a daily index.

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A summary of the Laclede total demand charges and the savings are shown in the following table. ** _____

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III. LANGE UNDERGROUND STORAGE NON-RECOVERABLE GAS

Laclede operates an underground aquifer natural gas storage field (Lange UGS or UGS) in the St. Louis area which experiences non-recoverable losses of natural gas.

The Lange UGS non-recoverable gas is an issue from prior ACA cases. In the 2009/2010 ACA, 2010/2011 ACA, and the current ACA, Laclede attempted to recover costs for estimates of non-recoverable gas in its Lange UGS as a gas cost. Staff disagreed with Laclede's accounting treatment for estimated non-recoverable UGS gas.

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However, subsequent to this ACA filing, the UGS non-recoverable gas issue was resolved by Stipulation and Agreement (“Stipulation”) in Laclede’s most recent general rate, Case No. GR-2013-0171. On June 26, 2013 the Commission approved the rate case Stipulation in which the parties agreed that, effective with its 2012-2013 winter PGA/ACA filing, Laclede shall adjust its ACA balances to remove any underground storage losses from the ACA balances in Case Nos. GR-2011-0055, GR-2012-0133, and GR-2013-0253, as well as the ACA balance Laclede would have otherwise filed in its 2012-2013 winter PGA/ACA filing. Laclede agreed that the adjustments would return any amounts previously billed to customers for the recovery of UGS non-recoverable gas from November 2009 up to the effective date of Laclede’s 2012-2013 winter PGA/ACA filing.

The amount of UGS non-recoverable gas contained in this ACA is \$897,459.75. The amount of UGS non-recoverable gas contained in the 2010-2011 and 2009-2010 ACA filings was \$932,635.71 and was \$1,084,904.92, respectively. While Staff does not make an adjustment for UGS non-recoverable gas in this case, it expects that the Company has made an adjustment for UGS non-recoverable gas in its most recent ACA filing as per the referenced Stipulation. Thus Staff will check for Laclede’s compliance with the Stipulation regarding the UGS non-recoverable gas in its 2012/2013 ACA review.

IV. REFUND OF MISSOURI PIPELINE COMPANY OVERCHARGES

Laclede uses MoGas Pipeline (“MoGas”) (formerly known as Missouri Pipeline Company (MPC) and Missouri Gas Company) to transport gas to its customers. This issue involves pipeline transportation overcharges by MPC, which Laclede paid and passed through to its customers.

The MPC transportation overcharge issue is an issue from prior ACA Cases. Laclede filed a petition in the St. Charles County Circuit Court, Case No. 1111-CV02060, to recover overcharges from MPC. On September 6, 2012 the Circuit Court issued a judgment that found Laclede was entitled to recover from MoGas an amount of \$6,638,361 plus interest. Subsequent to this ACA period, on July 15, 2013 Laclede and Ameren Missouri (“Ameren”) filed a Joint Motion requesting the Commission dispose of all MoGas issues with respect to their ACA cases. The Joint Motion stated that Laclede, Ameren, and MoGas reached a Settlement Agreement and MoGas is required to pay Laclede \$3,676,000 as settlement of the judgment. The Staff Response to Joint Verified Motion of Union Electric Company d/b/a Ameren Missouri and Laclede Gas Company was filed July 29, 2013. Effective August 24, 2013, the Commission granted Laclede’s and Ameren’s Motion to resolve all MoGas issues, subject to the requirement that on a going forward basis, Laclede and Ameren return the settlement funds to their retail customers

through their PGA/ACA mechanisms. **Therefore, Staff recommends the Commission hold this ACA case open until Staff confirms that MoGas made the settlement payment and Laclede returned the settlement payment to its customers through the PGA/ACA mechanism.**

Staff has requested documentation to confirm Laclede has returned the MoGas settlement to its customers through the PGA/ACA mechanism. Staff will notify the Commission when confirmation is complete.

V. HEDGING

One of the purposes of hedging is to reduce upward gas price volatility. The Staff reviewed the Company's Risk Management Strategy and its hedging transactions for the 2011-2012 ACA period. The Staff also reviewed monthly hedged coverage for the winter period of November 2011 through March 2012. Laclede uses financial instruments and storage withdrawals for its hedge coverage.

Staff has the following comments and concerns about Laclede's hedging practice and documentation:

A. ** _____ **

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B. ** _____ **

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C. Evaluation of Hedge Program

While Staff reviews the prudence of a Company's decision-making based on what the Company knew or should have known at the time it made its decisions, the Company's hedging planning should be flexible enough to incorporate changing market circumstances. The Company should evaluate its hedging strategy in response to changing market dynamics as to how much the existing hedging strategy actually benefits its customers while balancing market price risk. ** _____

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Finally, the Staff recommends the Company analyze the benefits/costs based on the outcomes from the hedging strategy; and evaluate any potential improvements on the future hedging plan and its implementation to achieve a cost effective hedging outcome. ** _____

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Additionally a summary of how the Company's hedges have performed against market pricing, i.e., the impact of purchases without the hedges is useful. This hedge performance or mark-to-market summary over an extensive historical period is helpful in seeing the long term financial impact of the hedge program and may assist Laclede in hedge planning. The Staff recommends that Laclede develop this summary in future ACA periods.

Finally, as discussed in the **Gas Supply Reservation (Supply Demand) Charges** section, ** _____

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VI. RECOMMENDATIONS

A. Based on the analysis discussed above, Staff recommends the following:

1. For the 2011/2012 ACA period, Staff has proposed no adjustments to the Company's September 30, 2012 ending ACA account balances shown in the table below. In addition, Staff proposes to reserve its recommendation on the ACA balances pending confirmation that MoGas made the settlement payment and Laclede returned the settlement payment to its customers through the PGA/ACA mechanism.

An over-recovery is the amount owed to the customers by the Company and is shown in the table as a negative number. An under-recovery is an amount owed to the Company by the customers and is shown in the table as a positive number.

	Firm Sales non-LVTSS	Firm Sales LVTSS	Interruptible Sales	LP Sales	Firm Transportation	Vehicular Fuel
ACA Balance per Filing	\$ 37,514,643	\$ 76,598	\$ 111,072	\$ (1,797)	\$ 532,838	\$ 31,335
Staff Adjustments	\$0	\$0	\$0	\$0	\$0	\$0
Staff Recommended ACA Balance	\$ 37,514,643	\$ 76,598	\$ 111,072	\$ (1,797)	\$ 532,838	\$ 31,335

2. There are no dollar adjustments related to Reliability and Gas Supply Analysis. However, Staff has documented concerns and recommends Laclede respond within forty-five days to the comments made by Staff in the Reliability and Gas Supply Analysis section regarding (1) Laclede's Gas Supply Planning Request for Proposal Process- Documentation of Supply Bids Received, Bid Evaluation, and Supply Award Process, and (2) Gas Supply Reservation (Supply Demand) Charges.
3. Although there are no dollar adjustments related to hedging, Staff recommends Laclede respond within forty-five days to the comments in the hedging section.
4. Respond to the recommendations herein within forty-five days.

B. Staff recommends this case remain open for the following reason:

1. To confirm that MoGas made the settlement payment and Laclede returned the settlement payment to its customers through the PGA/ACA mechanism.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Scheduled)
November PGA Filing)

Case No. GR-2013-0253

AFFIDAVIT OF KWANG Y. CHOE

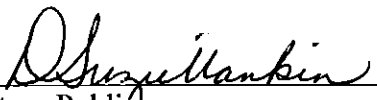
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Kwang Y. Choe, being of lawful age, on his oath states: that as a Regulatory Economist II in the Procurement Analysis Unit of the Utility Services Department, he has participated in the preparation of the foregoing memorandum consisting of 10 pages to be presented in the above case; that he has knowledge of the matters set forth in the Memorandum pertaining to *Hedging*; and that such matters are true and correct to the best of his knowledge and belief.



Kwang Y. Choe

Subscribed and sworn to before me this 12th day of December, 2013.



Notary Public

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Scheduled)
November PGA Filing)

Case No. GR-2013-0253

AFFIDAVIT OF ANNE M. CROWE

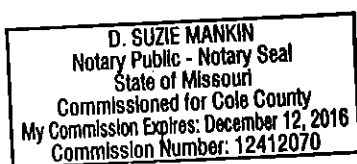
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.


Anne M Crowe, being of lawful age, on her oath states: that as a Utility Regulatory Auditor IV in the Procurement Analysis Unit of the Utility Services Department, she has participated in the preparation of the foregoing memorandum consisting of 10 pages to be presented in the above case; that she has knowledge of the matters set forth in the Memorandum pertaining to *Lange Underground Storage Non-recoverable Gas and Refund of Missouri Pipeline Company Overcharges*; and that such matters are true and correct to the best of her knowledge and belief.



Anne M. Crowe

Subscribed and sworn to before me this 12th day of December, 2013.




Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

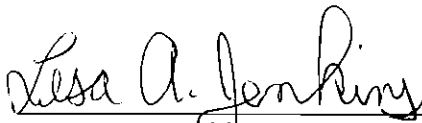
In the Matter of Laclede Gas Company's Scheduled)
November PGA Filing)

Case No. GR-2013-0253

AFFIDAVIT OF LESA JENKINS

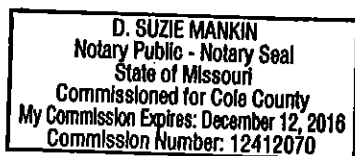
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Lesa Jenkins, being of lawful age, on her oath states: that as a Utility Regulatory Engineer II in the Procurement Analysis Unit of the Utility Services Department, she has participated in the preparation of the foregoing memorandum consisting of 10 pages to be presented in the above case; that she has knowledge of the matters set forth in the Memorandum pertaining to *Reliability and Gas Supply Analysis*; and that such matters are true and correct to the best of her knowledge and belief.



Lesa Jenkins

Subscribed and sworn to before me this 12th day of December, 2013.





Notary Public