

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

In the Matter of )  
Summit Natural Gas of Missouri's ) Case No. GR-2014-0096  
Purchased Gas Adjustment )

**STAFF REPLY TO SNG'S RESPONSE  
TO STAFF RECOMMENDATION AND MEMORANDUM**

**COMES NOW** the Staff of the Missouri Public Service Commission, by and through counsel, and respectfully replies as follows to SNG's *Response to Staff Recommendation and Memorandum*:

1. On October 10, Staff filed its recommendations on Summit Natural Gas of Missouri, Inc.'s ("SNG" or "Company") 2012-2013 Actual Cost Adjustment (ACA) filings in this matter,<sup>1</sup> which include the results of Staff's review of SNG's billed revenues and actual gas costs from September 1, 2012 through August 31, 2013. SNG filed its response to Staff's recommendations on December 8, 2014.

2. The Commission ordered Staff to file its reply to SNG no later than January 7, 2015.

3. In the following paragraphs, Staff replies to SNG's responses by referring to the same section titles used by Staff and the Company in previous filings.

**Section II: Billed Revenue and Actual Gas Costs**

4. In its response, SNG stated that it agrees with Staff's recommended compliance adjustments for billed gas supply charges in the Northern Service Area, and to correct the ACA balance in the Southern Service Area. Staff does not necessarily

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<sup>1</sup> On October 27, the Commission granted SNG's motion to consolidate File No. GR-2014-0097 into this File No. GR-2014-0096.

agree with all of SNG's comments regarding monthly imbalances, but Staff will continue to discuss these issues with the Company. Therefore, there are no outstanding issues to be resolved by the Commission related to Staff's recommendations in this section.

### **Section III: Reliability Analysis and Gas Supply Planning**

5. In this section, SNG agreed with Staff's recommendations regarding weather normal data, reserve margin for the Northern, Southern and Rogersville service areas, and normal/warm/cold winter planning. The Company agreed to review its process of documenting natural gas supply transactions, and to review the reliability of its gas supply plans in light of Staff's recommendation to evaluate swing/call agreements. SNG agreed to address the criteria and limitations of sharing storage between rate areas if such strategy is included in future gas supply plans.

6. Although Staff does not necessarily agree with all SNG's comments, Staff will continue to discuss these matters with the Company, and therefore there are no outstanding issues on these matters for the Commission to resolve.

### **Storage Issue**

7. Staff and SNG continue to disagree, however, on Staff's recommended disallowance for imprudence related to the Company's decision not to fill its gas storage prior to the 2012-2013 winter. Staff recommended a disallowance of \$3,215 in the cost of gas for sales customers in the Northern Service Area, and a disallowance of \$143,936 in the cost of gas for sales customers in the Company's former SMNG service territory.

8. In reply to SNG's response, Staff did not employ "the selective use of hindsight as an evaluation tool."<sup>2</sup> Rather, Staff's prudence analysis looks at whether the utility's conduct was reasonable at the time, under all of the circumstances.<sup>3</sup> A prudence analysis does not invade management prerogatives, but rather Staff—and ultimately the Commission—must consider "how reasonable people would have performed the tasks that confronted the company."<sup>4</sup> As the Commission explained,

"prudence is measured by the standard of reasonable care requiring due diligence, based on circumstances that existed at the time the challenged item occurred, including what the utility's management knew or should have known. In making this analysis, **the Commission is mindful that '[t]he company has a lawful right to manage its own affairs and conduct its business in any way it may choose, provided that in so doing it does not injuriously affect the public.'**"<sup>5</sup>

Therefore, Staff only recommends a disallowance when the utility acted imprudently, and when such imprudence results in harm to the utility's ratepayers.<sup>6</sup>

9. In its analysis of SNG's storage decisions in this case, Staff considered the storage contract limits and SNG's estimated warm winter requirements. Staff does not agree that filling storage would have resulted in storage "being too full the following spring, in the event of a warm winter."<sup>7</sup>

10. Staff disagrees with SNG's argument that Staff's analysis depends on knowledge of summer purchases for injection being priced significantly below the actual winter prices. Instead, as explained in Staff's recommendation, an LDC's use of

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<sup>2</sup> SNG Response, p. 4, pgph. 12.

<sup>3</sup> See *State Ex rel. GS Technologies Operating Co., Inc. v. Public Service Commission*, 116 S.W. 3d 680, 694 (Mo. App. W.D. 2003).

<sup>4</sup> *State ex rel. Associated Natural Gas Co. v. Public Service Commission*, 954 S.W.2d 520, 529. (Mo. App. W.D. 1997).

<sup>5</sup> *In re Missouri-American Water Co*, WR-2007-0216, *Report and Order*, issued October 4, 2007, p. 24 (emphasis added).

<sup>6</sup> 954 S.W. 2d at 529-530.

<sup>7</sup> SNG Response, p. 4 pgph 12.

storage is a common practice that provides both a financial hedge against price changes and a physical hedge for winter season and peak day loads. Customers pay reservation charges for storage, whether the Company fills the storage or not. As for the Company's response about its gas purchasing experiences for 2014/2015, Staff will review that data when SNG makes its PGA/ACA filing in 2015. In this case, Staff maintains its position that SNG's decision not to fill storage was imprudent.

11. Therefore, Staff and SNG remain in disagreement about Staff's recommended storage-related prudence disallowances, and this issue remains unresolved. However, counsel for Staff and SNG have discussed this issue, and Staff recommends the Commission grant the parties some additional time to continue these discussions.

#### **Section IV: Hedging**

12. Staff and SNG will continue to meet and discuss the Company's gas hedging strategy. There are no issues for the Commission to resolve regarding these recommendations.

**WHEREFORE**, Staff recommends the Commission order the parties to file, within 30 days, a stipulation and agreement or a joint proposed procedural schedule, or a status report in this case.

Respectfully Submitted,

**STAFF OF THE MISSOURI  
PUBLIC SERVICE COMMISSION**

*/s/ John D. Borgmeyer*

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**CERTIFICATE OF SERVICE**

I hereby certify that true and correct copies of the foregoing were served electronically to all counsel of record this 7<sup>th</sup> day of January, 2015.

*/s/ John D. Borgmeyer*