

**MEMORANDUM**

TO: Missouri Public Service Commission Official Case File,  
File No. GR-2014-0121, Laclede Gas Company

FROM: Anne M. Crowe, Regulatory Auditor - Procurement Analysis  
Lesa Jenkins, P.E., Regulatory Engineer - Procurement Analysis  
Kathleen McNelis, Utility Engineering Specialist III – Procurement Analysis  
Kwang Y. Choe, Ph.D., Regulatory Economist - Procurement Analysis

/s/ David M. Sommerer 12/18/14      /s/ John Borgmeyer 12/18/14  
Project Coordinator / Date                      Staff Counsel / Date

/s/ Lesa Jenkins P.E, 12/18/14  
Utility Regulatory Engineer II/ Date

SUBJECT: Staff’s Recommendation in File No. GR-2014-0121, Laclede Gas Company’s  
2012-2013 Actual Cost Adjustment Filing

DATE: December 18, 2014

**I. EXECUTIVE SUMMARY**

On October 31, 2013, Laclede Gas Company (“Company,” “Laclede,” or “LGC”) filed its Actual Cost Adjustment (ACA) for the 2012-2013 period in case GR-2014-0121. The filing contains the Company’s ACA balances as of September 30, 2013.

Laclede serves approximately 649,000 residential, commercial and industrial customers in the St. Louis metropolitan area and surrounding 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, 2012 through September 30, 2013. 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. In this document, Laclede Gas Company’s marketing affiliate Laclede Energy Resources is referred to as LER.

Staff has proposed dollar adjustments to the Company’s ACA account balances filed October 31, 2013. The following Table of Contents provides a guide to Staff’s comments and recommendations contained in sections I through IV of this Memorandum:

<b>Section No.</b>	<b>Topic</b>	<b>Page</b>
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**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 gas supply plans for various weather conditions.

Staff has proposed financial adjustments and Staff has the following comments and concerns regarding Laclede’s reliability analysis and gas supply planning:

**A. Gas Supply Reservation (Supply Demand) Charges**

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\*\* These fixed charges are incurred









The order approving the stipulation and agreement was effective 8/24/2013, which was after the Company purchased gas for the 2012/2013 ACA.

Staff concerns with the Laclede documentation of supply bids, bid evaluation and natural gas supply award process for the 2012/2013 ACA are as follows:

**1. Documentation of Bids and Supply Awards**

Part A.4.(e) of the Gas Supply and Transportation Standards of Conduct requires a complete summary of all bids received and prices accepted, together with copies of all underlying documents, contracts and communications.

For the 2012/2013 ACA gas supply, Laclede's RFP process requested bids for firm supply. Laclede summarized the responses in a bid summary. Laclede's documentation of the bid offers, revisions to offers and supply awards were not sufficiently documented.

Staff noted several apparent omissions and inaccuracies in the Company's bid summary.<sup>2</sup> Examples include:

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Staff noted several examples where bids were changed between the offer<sup>3</sup> and award.<sup>4</sup>

<sup>2</sup> Submitted as confidential attachment "rfp responses 1213.xls" to GR-2014-0121 to Data Request (DR) 49.

<sup>3</sup> Copies of bid offers in GR-2014-0121, DR 49, attachment "rpf bids 1213.pdf."

<sup>4</sup> Copies of award letters in GR-2014-0121, DR 75, attachment "gas supply contracts 1213.pdf", and DR 75.1 attachments.

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When bid offer prices are changed by the bidder or Laclede, this should be noted in the bid summary. Otherwise all bids must be included and summarized as they were received. For the gas supply competitive bid process for the 2013/2014 ACA period, Staff will be evaluating documentation of bids, bid evaluation and award decisions for compliance with the requirements in the Standards of Conduct.

**2. Low Bid Not Accepted**

Parts A.1 and 2 of the Gas Supply and Transportation Standards of Conduct discuss a competitive bidding process and exceptions to the competitive bid and award process. Staff considers awarding contracts to an offer higher than the lowest offer to be an exception to a competitive bid process. In the Company's responses to Staff's recommendations on GR-2012-0133<sup>8</sup> and GR-2011-0055,<sup>9</sup>

<sup>5</sup> \*\* \_\_\_\_\_ \*\*  
<sup>6</sup> \*\* \_\_\_\_\_ \*\*  
<sup>7</sup> \*\* \_\_\_\_\_ \*\*

<sup>8</sup> GR-2012-0133, File date February 11, 2013.  
<sup>9</sup> GR-2011-0055, File date January 14, 2013.



the Company agreed to develop a process to formally document decisions not to accept the low bid.

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Examples of the Company's supplemental responses are as follows:

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As per the Gas Supply and Transportation Standards of Conduct, for any exceptions to the competitive bid and award process, Laclede will have a documented process for the supply approval and award process, including (a) justification requirements, (b) authorization process; (c) contemporaneous documentation requirements (for internal Company information and external communication with suppliers), and (d) effective monitoring and controls. For the gas supply competitive bid process for the 2013/2014 ACA period, Staff will be evaluating exceptions to the competitive bid process as set forth in the Standards of Conduct.

**3. Selective Negotiations versus Competitive Bid Process**

Parts A.1 and 2 of the Gas Supply and Transportation Standards of Conduct discuss a competitive bidding process and exceptions to the competitive bid and award process. \*\* \_\_\_\_\_  
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<sup>10</sup> GR-2014-0121, DR 49.2 and 49.3.





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In the Company’s response to Staff’s recommendation in case GR-2013-0253,<sup>11</sup> the Company acknowledged Staff’s periodically expressed concerns regarding documentation of post-bid negotiations, and agreed to maintain documentation of exceptions to the competitive bid process.

As per the Gas Supply and Transportation Standards of Conduct, for any exceptions to the competitive bid and award process, Laclede will have a documented process for the supply approval and award process, including (a) justification requirements, (b) authorization process; (c) contemporaneous documentation requirements (for internal Company information and external communication with suppliers), and (d) effective monitoring and controls. For the gas supply competitive bid process for the 2013/2014 ACA period, Staff will be evaluating exceptions to the competitive bid process as set forth in the Standards of Conduct.

**4. Consideration of Alternative Bids**

Part A.8 of the Gas Supply and Transportation Standards of Conduct allows for consideration of alternative bids, provided that the RFP explicitly advised suppliers that proposing alternatives was permissible and the alternative arrangement is at least as favorable as the other initial bids received.

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<sup>11</sup> GR-2013-0253, File date February 14, 2014.

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Staff expressed similar concerns in its recommendations for the 2010/2011 ACA, case GR-2012-0133. In its response,<sup>13</sup> the Company stated that it was revising its contract language to delete the statement that bids must strictly conform to the RPF terms and conditions. This change was not made prior to soliciting bids for the 2012/2013 ACA period. As per the Gas Supply and Transportation Standards of Conduct, unless Laclede’s RFP specifically allows suppliers to propose alternatives, no such alternative proposals should be awarded unless that proposed supply arrangement is rebid. The Company must also evaluate the alternatives proposed against the initial bids received to determine if the alternative arrangement is at least as favorable as the other initial bids received.

For the gas supply competitive bid process for the 2013/2014 ACA period, Staff will be evaluating consideration of alternative bids for compliance with the requirements in the Standards of Conduct.

**C. Lost and Unaccounted for Gas**

Nationally, there is growing regulatory concern and attention being paid to the issue of lost and unaccounted (L&U) natural gas.<sup>14</sup> In 2013, the National Regulatory Research Institute (NRRI) conducted a survey of state utility commissions to determine current regulatory practices regarding L&U gas.<sup>15</sup> This study summarized the regulatory concerns, including higher purchased gas costs for customers and safety. The NRRI grouped the response of surveys results received from 41 state commissions into the following categories:

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<sup>12</sup> \*\* \_\_\_\_\_ \*\*

<sup>13</sup> GR-2012-0133, File date February 11, 2013.

<sup>14</sup> “More study needed on lost and unaccounted for gas: think tank,” Washington, Platts April 5, 2013. <http://www.platts.com/latest-news/natural-gas/washington/more-study-needed-on-lost-and-unaccounted-for-7689865>.

<sup>15</sup> “Lost-and-Unaccounted-for Gas: State Utility Commission Practices,” Ken Costello, NRRI, November 17, 2013. <http://www.narucmeetings.org/Presentations/Presentation-on-LAUF-Gas%20-NARUC-Gas-Subcommittee-November-17-2013-Costello.pdf>.



- Commissions devoting little effort to reviewing L&U allowing cost recovery with minimal oversight;
- Commissions placing caps on allowed cost recovery or applying an explicit incentive mechanism; and
- Commissions that routinely scrutinize levels of L&U gas to determine cost recovery or identify potential safety or other problems. These Commissions tend to act when levels of L&U are abnormal or deviate far from historical averages.

The NRRI study cautioned against comparing L&U percentages across utilities at a given point in time for determining cost recovery and utility prudence, as it could lead to inappropriate action. The study said the best benchmark arguably comes from tracking an individual utility's L&U percentage over time.

In its section on Considerations for Commissions, the NRRI study suggested that Commissions should consider requiring utilities to compile better information on the individual sources of L&U gas and that Commissions might consider taking a proactive stance in assessing the performance of utilities in managing L&U gas, especially in making sure that utilities are exploiting all prudent actions to manage L&U gas.

In this case, the Company has stated that unaccounted for gas would likely have to be significantly greater than the 2.5 percent level built into the Company's PGA rates on a sustained basis to warrant an investigation by the Company as to possible causes.<sup>16</sup> The Company clarified that it considers 4.2 percent L&U significantly greater than 2.5 percent if there is no plausible explanation for the difference, however, where there is a plausible explanation such as colder weather, 4.2 percent may not be a source of concern.<sup>17</sup> The Company has not provided clear limits for the level of L&U above 2.5 percent that it considers significant. The Company has stated that it would consider "Two or more years in succession of high unexplained percentages of unaccounted for gas"<sup>18</sup> to be a sustained basis.

The Company provided only system-wide aggregated L&U data. When questioned if the information necessary to calculate L&U for discrete areas of the system is monitored and recorded, the Company responded:

To the extent that a particular pipeline delivery point is used to serve a single service area presumably L&U could be determined for such service area, however, ... the Company has not engaged in or gathered the data necessary to perform such an analysis. In particular, billing data that is

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<sup>16</sup> Company response to GR-2014-0121, DR 35.1(f).

<sup>17</sup> Company response to GR-2014-0121, DR 35.2(a).

<sup>18</sup> Company response to GR-2014-0121, DR 35.2(b).

usually only reported in the aggregate by Company division would have to be gathered by location within that division.<sup>19</sup>

Staff recommends that the Company review its policies and procedures regarding management of L&U gas with a goal of establishing clear targets and objectives for acceptable levels of L&U, as well as consideration of actions to be taken in the event L&U increases above target levels. Staff further recommends that, to the extent data is available, the Company track L&U by sub-systems so that if a particular area is experiencing an upward trend in L&U gas, such trend can be detected and addressed by the Company.

**D. Reports Due for Demand/Capacity Analysis (also referred to as Reliability Report)**

The order approving the Unanimous Stipulation and Agreement (S&A) for the Laclede Group and Laclede Gas acquisition of Missouri Gas Energy (MGE) from Southern Union was issued 7/17/13 and effective 7/31/13 in GM-2013-0254. The S&A included provisions related to interstate and intrastate transportation and storage costs (pp 29 – 31 of S&A) and required Laclede to formally conduct a comprehensive evaluation of pipeline transportation capacity and storage capacity (Demand/Capacity Analysis) no less frequently than every three years and to submit the analysis to Staff, OPC, and other interested parties.

The S&A also requires:

If Laclede Gas revises the transportation capacity or storage capacity from that identified in the Demand/Capacity Analysis, Laclede Gas shall prepare an addendum to the Demand/Capacity Analysis within 6-months of making such changes, explaining the changes and the rationale for the changes, and provide the addendum to Staff and OPC. Laclede Gas shall file the Demand/Capacity Analyses and addendums, in EFIS, under case GM-2013-0254.

The S&A also requires:

Laclede Gas shall notify OPC, Staff, and other interested parties, subject to the protections found in 4 CSR 240-2.135 and/or 4 CSR 240-2.085, if and when Laclede Gas adds or changes pipeline capacity (transportation and storage capacity) of a quantity equal to or greater than 10% of Laclede Gas or MGE Division's existing capacity and shall keep and provide OPC and Staff, appropriate documentation regarding such decisions. Laclede Gas' notification shall be provided within 30 days of the effective date of

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<sup>19</sup> Company response to GR-2014-0121, DR 36.2(e).

changes. This documentation shall include, but not be limited to: all proposed terms, including rates (and any discounts), amount of capacity, delivery and take points, any storage capabilities, maximum storage quantities, maximum daily withdrawal quantities, maximum daily injection quantities, whether the capacity is firm, interruptible, etc., capacity release and off-system sales opportunities, the reason for the additional capacity or change, and all negotiations regarding the new or change in capacity. This information shall be provided upon request within the time normally provided for discovery under the Commission's rules. However, in no event shall the providing of this information constitute preapproval by OPC or Staff or any other proper party.

Although Laclede provided a 2012/2013 Demand/Capacity Analysis, it uses the same regression data as the previous two analyses for 2011/2012 and 2010/2011. Laclede conducted a regression of actual distribution data for 1/1/2010 – 2/28/2010. Staff expects to see updated data for the 2013/2014 ACA period.

**E. Laclede Contracts for Pipeline Transportation Capacity**

Various Laclede contracts for pipeline transportation capacity expired during the ACA period. Staff has comments and recommendations regarding two of the transportation contracts for the 2012/2013 ACA.

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\_\_\_\_\_ \*\* Staff cannot recommend approval for all the fixed costs of  
this contract in the 2012/2013 ACA. \*\* \_\_\_\_\_

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Staff explanation of the recommended adjustments is as follows:

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### III. 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 2012-2013 ACA period. The Company implemented its financial hedging transactions based on the risk management strategy. The Staff also reviewed monthly hedged coverage for the winter period of November 2012 through March 2013. 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:

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#### B. Evaluation of Hedge Program

Staff reviews the prudence of a Company's decision-making based on what the Company knew or reasonably could have known at the time it made its hedging decisions. A Company's hedging planning should be flexible enough to incorporate changing market circumstances. A 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. \*\* \_\_\_\_\_

\_\_\_\_\_ \*\* The Company should also routinely review the possible use of more cost-effective financial instruments under the current market where the market prices have become relatively less volatile.

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 in its consideration of prospective changes to its Risk Management Strategy. 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.

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\*\* this option should be included in the Company's Risk Management Strategy and the Company should evaluate the costs/benefits of these instruments in conjunction with other parts of the Company's hedge program. Staff made a similar recommendation for the 2011-2012 ACA case and the Company did not object to including \*\*

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#### IV. RECOMMENDATIONS

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

1. For the 2012/2013 ACA period, Staff recommends \*\*  
\*\* The allocation of the adjustments to the Company's September 30, 2013 ending ACA account balances are shown in the table below.

*continued on next page*

**NP**

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	\$ 10,820,401	\$ (283,829)	\$ 41,935	\$ (2,197)	\$ (261,606)	\$ (130,179)
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2. \*\* \_\_\_\_\_

\_\_\_\_\_ \*\* In addition, 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) Gas Supply Reservation (Supply Demand) Charges (2) Laclede's Gas Supply Planning Request for Proposal Process-Documentation of Supply Bids Received, Bid Evaluation, and Supply Award Process, (3) Lost and Unaccounted for Gas, (4) Reports Due for Demand/Capacity Analysis, and (5) Laclede Contracts for Pipeline Transportation Capacity.

3. Although there is no dollar adjustment related to hedging, Staff recommends Laclede respond within 45 days to the comments in the hedging section.
4. Respond to the recommendations herein within 45 days.

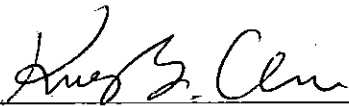
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's )  
Scheduled November PGA Filing. ) File No. GR-2014-0121

AFFIDAVIT OF KWANG Y. CHOE, PhD

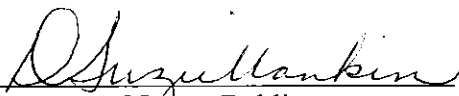
STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Kwang Y. Choe, PhD. being of lawful age, on his oath states: that as a Regulatory Economist II in the Procurement Analysis Unit of the Utility Services Department in the Regulatory Review Division, he has participated in the preparation of the foregoing memorandum consisting of 23 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.

  
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Kwang Y. Choe, PhD

Subscribed and sworn to before me this 18<sup>th</sup> day of December, 2014.

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

  
\_\_\_\_\_  
Notary Public




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

In the Matter of Laclede Gas Company's )  
Scheduled November PGA Filing. ) File No. GR-2014-0121

AFFIDAVIT OF ANNE M. CROWE


STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

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 in the Regulatory Review Division, she has participated in the preparation of the foregoing memorandum consisting of 23 pages to be presented in the above case; that she has knowledge of the matters set forth in the Memorandum pertaining to billed revenues and actual gas costs; and that such matters are true and correct to the best of her knowledge and belief.

  
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Anne M. Crowe

Subscribed and sworn to before me this 18<sup>th</sup> day of December, 2014.

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

  
\_\_\_\_\_  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's )  
Scheduled November PGA Filing. ) File No. GR-2014-0121

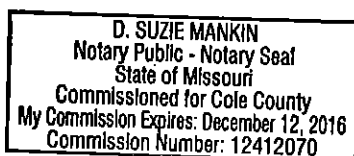
AFFIDAVIT OF LESA JENKINS

STATE OF MISSOURI )  
 )  
COUNTY OF COLE ) ss.

Lesa Jenkins, PE, 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 in the Regulatory Review Division, she has participated in the preparation of the foregoing memorandum consisting of 23 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 A. Jenkins  
Lesa Jenkins, PE

Subscribed and sworn to before me this 18<sup>th</sup> day of December, 2014.



D. Suzie Mankin  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

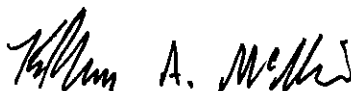
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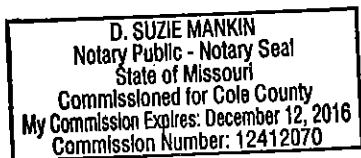
**AFFIDAVIT OF KATHLEEN A. McNELIS**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Kathleen A. McNelis, being of lawful age, on her oath states: that as a Utility Engineering Specialist III in the Procurement Analysis Unit of the Utility Services Department in the Regulatory Review Division, she has participated in the preparation of the foregoing memorandum consisting of 23 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.

  
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Kathleen A. McNelis

Subscribed and sworn to before me this 18<sup>th</sup> day of December, 2014.



  
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Notary Public