

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

In the Matter of Laclede Gas Company's)
PGA Filing) File No. GR-2015-0201

**RESPONSE TO STAFF'S RECOMMENDATION
AND MEMORANDUM REGARDING LACLEDE GAS COMPANY'S
2014-2015 ACTUAL COST ADJUSTMENT FILING**

COMES NOW Laclede Gas Company ("Laclede" or "Company"), and pursuant to the Commission's Order dated December 19, 2016, submits this response to the Recommendations and Memorandum filed by the Staff of the Missouri Public Service Commission ("Staff") in the above captioned matter on December 16, 2016. In support thereof, Laclede states as follow:

1. On December 16, 2016, the Staff filed its Recommendation and Memorandum relating to its review and evaluation of Laclede's billed revenue and gas costs for the October 1, 2014 to September 30, 2015 Actual Cost Adjustment ("ACA") period (hereinafter "Staff Recommendation"). The Staff Recommendation addresses a number of matters relating to Laclede's gas planning, procurement and hedging activities during the ACA period. The Staff also recommends the ending ACA balances to use for the period, which are identical to those submitted by the Company in ACA filing. The Staff Recommendation also requests that the Commission direct Laclede to submit a response addressing:

- Staff recommendations in the Reliability and Gas Supply Analysis section of its filing; and,
- Staff recommendations in the Hedging section of its filing.

2. On December 19, 2017, the Commission issued its Order directing Laclede to provide a response to the matters raised by Staff. For the Commission's convenience, Laclede will respond to such matters in the same order they are presented in Staff's Recommendation.¹

RELIABILITY AND GAS SUPPLY PLANNING

3. While the Staff does not propose any financial adjustment relating to reliability and gas supply planning, it makes a number of recommendations regarding various aspects of those activities. These include:

Peak Design Day and Regression Model

4. At pages 2 to 4 of its Recommendation, the Staff addresses the new regression model used by the Company to determine the peak day demands of its customers for natural gas. Based on its own analysis, the Staff suggests that R-square value of the model could be increased from 92% to 95% by considering all usage data for the winter of 2013/2014 instead of basing it solely on usage data during the month of January 2014 only. The Staff also suggests that taking into account the day of the week or month could also enhance the precision of the model.

5. In response, Laclede notes that its 2016 Resource Plan, which was submitted to the Staff in September of 2016, employs a new analytical approach for modeling peak day requirements that it believes largely addresses Staff's suggestions. Laclede intends to consult with the Staff to assess whether and to what extent this analytical approach to estimating peak day requirements has indeed addressed Staff's concerns and whether further improvements or modifications may be useful.

Reserve Margin

¹While Laclede will attempt to address all of the material points raised by Staff in its Recommendations, the Company's failure to respond to a specific factual or policy assertion should not be construed as indicating that the Company's necessarily concurs in that assertion.

6. At page 4 of its Recommendation the Staff notes that an outside party is currently evaluating the withdrawal capabilities of the Company's own storage facilities. The Staff requests that it be notified within 30 days if this evaluation of storage withdrawal capabilities or if any study of the Company's propane vaporization facilities show a change could impact the Company's current reserve margin.

7. In response, the Company commits to providing any information that would indicate a material change in these capabilities. In making such a commitment, the Company reserves the right consistent with prior practice to thoroughly review, assess and comment on any evaluation before it is considered final and the results provided to Staff.

Gas Supply and Transportation Standards of Conduct

8. At pages 4 to 12 of its Recommendation, the Staff raises concerns regarding whether certain gas supply transactions were conducted in compliance with the documentation and process requirements of the Gas Supply and Transportation Standards of Conduct that were approved for Laclede Gas in Case No. GC-2011-0098. Each will be addressed in turn.

9. On pages 4 to 5 of its Recommendation, the Staff expresses concern that Laclede may be treating its affiliated gas supply marketer, LER, differently than other gas vendors because it issued a data request response which indicated that LER was considered to have an "A" credit rating and there was no need to review the credit rating of an affiliated company. From these responses, Staff appears to have drawn the conclusion that Laclede was not applying the credit scrutiny or standard to LER when doing business with its affiliate.

10. Given the wording of the response, Laclede appreciates why Staff may have drawn such a conclusion. The fact is, however, that LER is not excused in any way from any credit requirement that would otherwise be applicable to any other vendor. Because LER is an affiliate,

however, its financial condition and credit worthiness is already known at the corporate services level, which is responsible for monitoring and publicly disclosing the financial condition and performance of all affiliated companies, including LER. Accordingly, there is no need to conduct a separate credit check because what it would show is already known. That does not mean, however, that LER is excused from the same credit requirements applicable to other vendors. It is not.

11. At pages 6 through 9 of its Recommendation, the Staff expresses concerns regarding what it views as the inconsistent application by Laclede of various force majeure and non-performance provisions among Laclede's various suppliers. These include provisions that affect both the supplier's financial obligations as well as the Company's obligations in the event there is a failure to supply or purchase gas. Staff suggests that differing approaches to the inclusion and enforcement of such provisions may have an impact on the pricing achieved under the RFP process. Staff requests that the Company provide a summary of its efforts to evaluate and respond to Staff's concerns by February 14, 2016.²

12. In response, Laclede would note that the negotiation of supply agreements is a dynamic process where the ultimate terms of a particular contract will depend on a variety of factors that may vary from supplier to supplier, including where the gas is coming from, the supplier's working relationship with Laclede over the years, and market and supply conditions prevailing at a given point in time. While Laclede certainly favors consistency in the bidding and evaluation process, an inflexible, one-size-fits-all approach can also have its financial and operational downsides. That said, the Company agrees that Staff has raised some valid questions regarding how and to what extent such provisions should be reflected in the Company's various

² The Company assumes the Staff meant 2017, rather than 2016.

supply agreements, and Laclede has already removed the non-performance provisions in the RFP as suggested by Staff. Laclede will address the remaining issue with Staff, but given the fact that it is in the middle of the winter heating season, however, the Company believes that its obligation to provide such a response should be deferred until after the winter heating season has concluded so that its gas supply personnel can focus on their daily gas supply duties.

13. At pages 9 to 12 of its Recommendation, the Staff raises concerns regarding the sufficiency of the data provided by the Company to document various gas supply transactions, including monthly and daily purchases. The Staff notes that the Company has repeatedly raised the practicality and usefulness of some of the documentation requirements set forth in the CAM and Gas Supply Standards of Conduct and the Staff has helpfully suggested that the Company should submit for its and OPC's review any suggested changes to those requirements. In the meantime, the Staff has requested that Laclede provide a summary of its efforts to address Staff's concerns by February 14, 2017.

14. In response, Laclede asserts that the proprietary and competitiveness of all of its gas supply purchases can be supported by the market conditions prevailing at the time. It is clear, however, that the Staff remains unsatisfied with either the sufficiency of such documentation or the ease with which it can access it. The Company does not believe that this issue should be allowed to go unresolved any longer. It will therefore provide to Staff in February 2017 both a proposal to revise any existing documentation requirements as well as a summary of why it believes there is ample information to support the propriety of such purposes. After sending this information, the Company will follow up with Staff to arrange a meeting to discuss these items, exchange ideas, and answer questions, all with the view of reaching a mutually agreeable resolution of Staff's concerns.

15. At page 12 of its Recommendation, the Staff provides a table showing the gross value of transactions between Laclede Gas and LER, its marketing affiliate. The data presented by Staff is taken from the Company's annual CAM filing so the Company does not have any issue with its accuracy. The Company notes that the overwhelming majority of the costs of these transactions arise out of the RFP process, and reaffirms that all such transactions have been conducted in accordance with the requirements of its CAM.

16. At page 13 of its Recommendation the Staff requests that the Company make certain revisions to the excel spreadsheet it uses to report results under its Gas Supply Incentive Plan. In response, Laclede states that it will evaluate Staff's request and review potential modifications in light of practicalities and its current system capabilities.

HEDGING

17. On pages 14 and 15 of the Recommendation, the Staff discusses the Company's hedging strategy which is now being used for Laclede Gas and its operating unit, Missouri Gas Energy. The Staff recommends that Company evaluate its hedging strategy in response to changing market dynamics, including the level of hedging for its summer storage volumes and that the Company assess the effectiveness of its hedges based on the outcomes. The Staff also recommends that Laclede incorporate as part of its hedging programs, premium payments made on swing supplies to provide daily price protection on such supplies.

18. In response, Laclede first states that it agrees with Staff regarding the monitoring of market dynamics. The Company continually evaluates changes in market conditions, and its hedging strategy is inherently designed to take such changes into account in order to balance the cost of hedging against the goal of price stabilization, and thus achieve a cost-effective hedging outcome.

19. Laclede would also note it is constantly evaluating its hedging strategy and tracking its effectiveness, including the extent to which it hedges storage volumes. Laclede has also, as suggested by Staff, incorporated its efforts to achieve daily price protection for swing volumes in its overall hedging strategy. Laclede will continue its annual formal presentations to Staff and OPC in advance of the winter period, outlining its gas supply strategies including current hedging strategies.

WHEREFORE, Laclede respectfully requests that the Commission accept this Response to the Staff's recommendation.

Respectfully submitted,

/s/ Rick Zucker

Rick E. Zucker #49211
Associate General Counsel
700 Market Street, 6th Floor
St. Louis, MO 63101
(314) 342-0533 (telephone)
E-mail: rick.zucker@theLacledegroup.com

/s/ Michael C. Pendergast

Michael C. Pendergast #31763
Fischer & Dority P.C.
423 Main Street
St. Charles, MO 63301
(314) 288-8723 (telephone)
E-mail: mcp2015law@icloud.com

ATTORNEYS FOR LACLEDE GAS COMPANY

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing pleading was served on the Staff and the Office of the Public Counsel, on this 30th day of January, 2017 by hand-delivery, fax, electronic mail or by regular mail, postage prepaid.

/s/ Marcia Spangler