MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2008-0140, Laclede Gas Company

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/s/ David M. Sommerer 12/30/08	/s/ Steven C. Reed 12/30/08
Project Coordinator / Date	General Counsel's Office / Date

SUBJECT: Staff's Recommendation in Case No. GR-2008-0140, Laclede Gas Company's 2006-2007 Actual Cost Adjustment Filing

DATE: December 30, 2008

The Procurement Analysis Department (Staff) has reviewed Laclede Gas Company's (Company or Laclede or LCG) 2006-2007 Actual Cost Adjustment (ACA) filing. This filing was made on October 31, 2007, and is docketed as Case No. GR-2008-0140. The filing contains the Company's calculations of the ACA balances. The Staff's review included an analysis of billed revenues and actual gas costs for the period October 1, 2006 through September 30, 2007.

Laclede Gas Company serves approximately 631,400 residential, commercial and industrial customers in the St. Louis metropolitan area and the surrounding southeastern counties. This is the first full ACA period that Laclede had ownership of the Sullivan area previously served by Fidelity Natural Gas, Inc. The Commission approved Laclede's ownership of Fidelity effective February 24, 2006.

Staff conducted a reliability analysis for Laclede, including a review of estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and a review of normal and cold weather requirements. The Staff also reviewed Laclede's gas purchasing practices to determine the prudence of the Company's purchasing and operating decisions. References to LGC refer to Laclede Gas Company while references to LER refer to the marketing affiliate Laclede Energy Resources.

RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

The Company is responsible for conducting reasonable long-range supply planning and the decisions resulting from that planning. One purpose of the ACA process is to examine the reliability of the Local Distribution Company's (LDC's) gas supply, transportation, and storage capabilities. For this analysis, Staff reviews the LDC's plans and decisions regarding estimated peak day requirements and the Company's capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

Staff has the following comments and concerns regarding the Company's reliability and gas supply information:

1. <u>Data Considered for Peak Day Capacity Planning</u>

Although this is the first full ACA period that Laclede had ownership of the Sullivan area previously served by Fidelity Natural Gas, Inc., Laclede did not incorporate planning for the Sullivan area into its 2006/2007 Reliability Report or its Fiscal 2007 Operating Plan.

The Company continued using January and February 2004 data in its analysis of capacity for the 2006/2007 ACA period because more recent winter month data that would have been available for the 2006/2007 analysis was mostly warmer than normal. Sullivan would not have been included in the data considered by Laclede, but Laclede had a separate capacity contract and supply contract for the Sullivan area and there was a prior study conducted by Fidelity for the Sullivan area.

A review of more recent heating degree day (HDD) data shows that January and February of 2007 combined are 106% of normal. Thus, for the 2007/2008 Reliability Report, Laclede should consider this more recent data. The updated analysis for 2007/2008 should include the Sullivan volumes, or Laclede should provide a separate updated analysis for Sullivan.

2. <u>Consideration of Transportation Customers for Peak Day Capacity Planning</u>

Transportation customers are large volume customers on the Laclede distribution system that purchase their gas directly from natural gas producers and arrange for pipelines to deliver that gas to Laclede. Laclede transports the specified volume to the end users. There are two types of transportation customers, basic and firm. Laclede excludes basic transportation (transport agreement is with pipeline/other – not Laclede's pipeline capacity) sendout from the data considered for peak day capacity because there is no obligation to provide backup gas supplies.

For Firm Service, Laclede will transport and deliver customer-owned gas up to the customer's daily scheduled quantity (DSQ) and Laclede will provide sales gas in excess of the DSQ up to the currently effective Billing Demand. The Customer is billed a reservation charge per billing demand therm (Tariff Sheet Nos. 33 and 34). Laclede will provide backup supplies for firm transportation customers in the event that their transporter fails to deliver gas to the city gate. Laclede does not provide backup supplies for basic transportation customers. The Gas Transportation department coordinates changes to the daily demand. Once a year, transportation customers nominate a daily maximum demand quantity. The billing demand for each month shall be the greater of (a) the Customer's contracted for billing demand for each separately metered service, or (b) the maximum amount of gas in therms) transported and/or purchased for each separately metered service during any consecutive period of 24 hours during the months of November through March when the Company has restricted Basic Service deliveries to the DSQ. The billing demand for any month shall not be less that the highest billing demand for any of the last preceding 11 months. (Tariff Sheet No. 35)

Laclede's pipeline resources planned for firm transportation are greater than the daily maximum demand quantity shown in its Operation Plan. Laclede previously explained that 48 BBtu/day is an estimate based on the end-user volume experienced during pervious period of extreme cold temperatures; the volumes provided in the Laclede Operating Plan, are the transportation customers' contracted MDQ with Laclede. (2004/2005 ACA, GR-2005-0203, DR111.1, part c, part 8). Thus, Laclede is planning on 15,676 MMBtu/day in excess of the transportation-firm customers daily maximum demand quantity to meet peak day needs, which is 148% of requirements for these customers.

Laclede Operating Plan, Fiscal 2007	Daily Maximum Demand Qty	Laclede Resources on MRT	Laclede Resources for Firm Transp. as % of Daily Max Demand Qty
Transportation Customers MDQ	MMBtu/day	MMBtu/day	
Transportation -Firm	32,324	48,000	148%
Transportation -Basic	59,452		
Total	91,776		

Laclede's Reliability Report and Operating Plans should be updated to adequately explain the capacity that is needed to serve firm transportation customers for a peak day. Any capacity reserved for a peak day for firm transportations customers above the daily maximum demand quantity (or billing demand) should be fully explained.

3. <u>Downstream Pipeline Capacity</u> – the amount of space reserved on pipeline(s) to deliver natural gas into the LDC system

The volumes from the downstream pipelines, ** ____ ____ ** However, Laclede only provides estimates of peak day requirements for early and late winter for its entire system, not for each of the downstream pipelines. ** ____ ____ **

** ____ ** Staff is concerned that Laclede has not provided adequate analysis of its pipeline capacity and other on-system resources and how they will be utilized to serve the specific areas of Laclede's system.

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Because similar concerns regarding an analysis of peak for specific service areas were expressed in the last two ACA recommendations, the 2005/2006 ACA, GR-2006-0288, and the 2004/2005 ACA, GR-2005-0203, **Staff recommends that Laclede provide updated 2007/2008 Reliability Report/Operating Plan information within 60-days of receiving this Staff recommendation**. Laclede should update its Reliability Report, or combine elements of the Reliability Report with its Operating Plan analysis, to evaluate and report the peak day requirements for specific service areas/city-gates that can only be served by specific pipeline(s) (transportation and storage) and on-system storage resources. Laclede should show how the pipeline and storage resources are broken out to meet the requirements of each service area. Laclede's peak day and resource analyses should continue to consider and report Laclede's requirements and resource constraints for early and late winter. Laclede's plan to release any capacity under non-recallable terms for the winter months should be explained (both why it is released as non-recallable and why the capacity is retained if it can be released as non-recallable, as Laclede will not necessarily obtain the full value through a capacity release) and should be considered in the resource constraints for early and late winter when calculating reserve margin. Laclede should explain how the release of **recallable capacity for the school aggregation program** is considered in its capacity analysis for early and late winter peak day requirements.

Staff's concerns regarding an analysis of peak for specific service areas, rather than only the entire system are based on the following:

a. ** ** (2004/2005 ACA, GR-2005-0203, Data Request No. 108-HC).

b. Laclede states, "Although the market requirements of Laclede's service territory have not increased on an aggregate basis in recent years, the pattern of consumption has changed dramatically. Demand in Laclede's western region has increased significantly, while demand in the eastern region, near the MRT city gates, has declined and the western region will continue to be Laclede's largest growth area based on information available at the current time." Laclede also states, it "requires additional deliveries in the western portion of its system, which at present can only be met by MoGas, because Laclede is fully utilizing the leg of the SSC that brings gas from Kansas City to St. Louis." (MoGas Pipeline FERC docket number CP07-450-000, *Motion for Leave to Answer and Answer of Laclede Gas Company to Protests* filed on November 26, 2007, dated December 11, 2007).

c. Laclede states it has been concerned for some time over the impact on its citygate deliveries by MoGas' predecessors resulting from fluctuations in Panhandle Eastern

Pipe Line Company's (PEPL) system pressures. It provides a list of eleven occurrences where MoGas was unable to deliver Laclede's contracted quantities "due primarily to the impact of weather on MoGas' predecessors' deliverability capability, due in turn to pressure reductions on PEPL", and six of these occurrences occurred prior to the 2005/2006 ACA. (MoGas Pipeline FERC docket number CP07-450-000, *Motion for Leave to Answer and Answer of Laclede Gas Company to Protests* filed on November 26, 2007, dated December 11, 2007). However, Laclede also states that there were no actual or potential low pressure problems for this ACA period. (GR-2006-0288, DR48.)

d. Laclede states, "The reliability of the MoGas system during cold weather was also a consideration" (GR-2008-0140, DR6.3), for adding the MIG contract for 12,500/day, but it does not provide details regarding Laclede's concerns for reliability.

e. Reserve Margin - Laclede shows a high reserve for early to mid-winter of 8.9%, but as storage is drawn down, the reserve margin declines to 1.5%. Laclede does not provide the derivation of the pipeline supply. A comparison to the contract volumes shows that Laclede must have reduced the capacity by some portion of the non-recallable capacity release. Staff's review shows a high reserve for early to mid-winter of 8.0%, but as storage is drawn down, the reserve margin declines to 0.7%. Because of the non-recallable capacity release and the reduction in storage deliverability for late winter, the **late winter reserve margin is reduced further to negative 2.2%**.

4. <u>Downstream Pipeline Capacity</u> – Laclede's Exclusion of Contract from its Fiscal Year 2007 Operating Plan

Laclede has not incorporated the increased capacity on MPC that went into effect in November 2006 into its FY2007 Operating Plan. Laclede should assure that its Operating Plans (or combined Reliability Report and Operating Plan) are updated to accurately reflect the available capacity for the months covered by the Reliability Report and/or Operating Plan.

5. <u>Sullivan Area Upstream Pipeline Capacity</u> (Pipeline delivering natural gas to another pipeline at an interconnection point where the second pipeline is closer to the LDC)

For the Sullivan area, the gas supply transaction confirmations with a marketer do not specify a maximum daily quantity for the upstream capacity on Panhandle Eastern Pipe Line (PEPL). This issue was also noted in the 2005/2006 ACA review, GR-2007-0179. Although the agreements are for full requirements, the nature of the capacity on PEPL is not known. There is no separate transportation agreement for the Panhandle Pipeline (PEPL) for the Sullivan area. The PEPL agreement that Laclede has is used to serve the western part of its system and Laclede did not incorporate planning for the Sullivan area into its 2006/2007 Reliability Report or its Fiscal 2007 Operating Plan.

The LDC must have sufficient verification with the marketer that the upstream capacity is firm, not interruptible, and is not at a lower reliability than primary firm capacity, so that the capacity can be counted on when needed.

6. Upstream Pipeline Capacity for Service Areas Other than Sullivan Area

To support the quantity of upstream pipeline capacity needed, Laclede evaluated usage for a record cold day in March (GR-2008-0140, DR6) and also referred to its 2006/2007 Reliability Report. Because of constraints on the MRT's Unionville storage withdrawal and its on-system resources (Lange under ground storage and Propane), Laclede is concerned with late winter cold weather. Laclede's analysis **does not support why Laclede chooses to split the capacity in the manner that it does between the various pipelines.** The upstream pipeline capacity analysis should be updated as follows.

a. Laclede should evaluate and document whether a cold day in February or a cold day in March yields tighter constraints. Laclede's Reliability Report considers a cold day in February as crucial for its late winter analysis. Staff's review of Laclede's spreadsheet in DR6 shows that February would be the more critical month to review for 2006/2007.

b. Include the entire winter month capacity for SSC and MPC. Laclede only includes 84.6 MMcf/day of capacity for SSC and MPC in its Operating Plan, but Staff review shows 89.5 MMcf/day or 91,300 MMBtu/day for the winter months (and 94,100 if include the Sullivan area).

c. Laclede's analysis should show the capacity available from each pipeline that can contractually and operationally be available to meet the cold day requirements.

   1) Laclede should split out the capacity for MPC and Southern Star, rather than only showing the combined total.

   2) Laclede should split out the capacity for MRT and CEGT, rather than only showing the combined total.

   3) Laclede should show the breakout between Mainline, Eastline, and Westline and for each detail the reliance on upstream capacity for a peak cold day. Laclede should show how the capacity from upstream pipelines flows into Mainline, Eastline, and Westline and document how much of the MRT capacity can be delivered to Laclede's city-gates without any upstream capacity.

   4) Laclede should show how MRT storage withdrawals take up the capacity on MRT Mainline, Eastline, and Westline on a peak cold day.

   5) Laclede should consider and document how much of the CEGT capacity relies on further upstream capacity. ** ____ ____________________ ** but does not breakout the volume available separately from CEGT and MRT, versus how much of this is already counted in the upstream capacity for NGPL or Trunkline.

6) Laclede should include its explanation how it considered the cost when selecting the upstream pipeline volumes.

d. Laclede's analysis should include a discussion of the non-recallable capacity release for each pipeline and how this is considered in the peak day planning.

e. Laclede's analysis should consider the constraints for its extreme winter (1935/1936 analysis) when listing the MRT storage availability and the propane and Laclede underground storage (UGS) deliverability. Additionally, Laclede's analysis should show propane deliverability and UGS deliverability separately rather than as combined total.

f. Laclede's analysis should provide a justification of its reserve margin, rather than just assuming a particular percentage for the reserve margin.

7. ** ______________________ **

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______ ** Staff has the same concern for the 2006/2007 ACA period.

Staff will continue to monitor Laclede's evaluation of its storage resources in future ACA periods.

8. Charges for Natural Gas Used by Interruptible Customers during Period of Interruption

It is important that interruptible customers curtail gas usage during times of peak demand so Laclede is able to serve its firm customers (primarily residential heating customers). The PGA charges for natural gas used during interruption for interruptible customers in effect during this ACA period were only $2.00 per therm ($20.00 per dekatherm or per MMBtu). The rate is not tied to a penalty above a daily rate that could be obtained in the daily market. During periods of interruptions, there is a potential that prices in the daily market may be higher than $2.00 per therm. Thus, interruptible customers could be using and paying for natural gas from Laclede during periods of interruption at lower cost than could be obtained in the daily market. To encourage interruptible customers to curtail usage in times of peak demand, Staff recommends that Laclede revise its tariff to tie the charge for natural gas used during curtailments to the higher of $20 or the daily NYMEX price plus an adder. This same concern was expressed in the 2005/2006 ACA, GR-2006-0288 and the 2004/2005 ACA, GR-2005-0203.

9. Target Dates for Physical Supply Volumes

For the 2006/2007 ACA, Laclede acquired some of its physical supply earlier - ** ____ ** However, the Company's reliability report still does not contain targets for actually acquiring physical supply. Having major portions of the physical supply ** ____ ** may pose a reliability issue and was a concern in the 2005/2006 ACA, GR-2006-0288, the 2004/2005 ACA, Case No. GR-2005-0203, and the 2003/2004 ACA, Case No. GR-2004-0273.

Laclede's Reliability Reports and/or Operating Plan should address target dates for acquiring physical supply volumes.

10. Updating Laclede's Base Load, Combination, Swing Study and Evaluating How the Supply Request for Proposal (RFP) Should Fit with This Study

Laclede conducted a study of base load, combination, and swing volumes (Data Request Nos. 106 and 106.1 – 106.5 responses in the 2003/2004 ACA, GR-2004-0273).

Laclede has ** ____ ** Base load contracts have little or no fixed costs.

** ____ **

Laclede does not evaluate how the RFP structure for its supply of natural gas should fit with its study of base load, combination and swing supply volumes. Laclede's base load/combo/swing study is dated and Laclede does not set its base load, combination, and swing contracts in the proportions set in this study.

Laclede did not follow its base load/combo/swing study when setting the total monthly supply volumes for October through April.

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** ** (It was a warm winter, 89% of normal, and March was extremely warm, 65% of normal. ** **

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Laclede should provide an updated study to Staff of how it structures its base load, combination, and swing contracts to assure that MRT storage tolerances are met and the supply is adequately structured to meet warm and cold winter requirements. Staff recommended in the 2005/2006 ACA, GR-2006-0288, and the 2004/2005 ACA, Case No. GR-2005-0203, that Laclede update the base load/combination/swing study and Staff made recommendations to be considered for the update. Staff continues to recommend that the base load/combination/swing study be updated on a routine basis and that Laclede evaluate how the RFP structure should fit with this study.

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** ** to determine the prudence of these supply agreements. To date Laclede has not provided a complete copy of the invoices or contracts. The information requested in this case is a subset of the information requested in the previous two ACA periods, Case Nos. GR-2006-0288 and GR-2005-0203, in which the Missouri Public Service Commission issued an order on October 20, 2008, granting the Staff of the Commission's motion to compel certain information

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from Laclede Gas Company. Laclede then filed a Motion for Reconsideration, Request for Stay and Request for Establishment of an Evidentiary Hearing. On December 17, 2008 the Missouri Public Service Commission issued its Order denying Laclede Gas Company's Motion for Reconsideration. Laclede Gas Company filed a Request for Clarification on 12/29/2008.

** ** The proposed disallowance for this issue is $812,111.

** ** Laclede has not provided LER's invoices and contracts that underlie the supply sold to Laclede Gas Company. Without this documentation, the Staff is unable to ascertain the fair market value of this affiliate transaction. Although the index used represents the market price for firm gas in the vicinity of the delivery points, the Staff is unable to verify LER's acquisition price and whether LER derived further value beyond the payments required in the LGC/LER contracts. ** **

The proposed adjustment for this LER supply agreement is $651,650. The total proposed disallowance for both LER agreements in the 2006-2007 period, is $1,463,761.

AFFILIATE TRANSACTIONS AND FAIR MARKET VALUE

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In addition, the table supplied as Schedule 4, in David M. Sommerer's Direct Testimony, filed in Laclede Gas Company Case No. GR-2007-0208, illustrates the increasing income figures of LER though the 2005-2006 timeframe.

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FERC REPORTING - OFF-SYSTEM SALES AND CAPACITIY RELEASE TRANSACTIONS

** ** The Laclede Fiscal Year Ended September 30, 2008 Form 10-K filed with the Securities and Exchange Commission (SEC) contained the following information regarding this issue:

> The Company commenced an internal review of the questions raised by the MoPSC Staff and notified the FERC Staff that it took this action. Subsequently, as a result of the internal review, the Company has provided the FERC Staff with a report regarding compliance of sales and capacity release activities with the FERC's regulations and policies. On July 23, 2008, the FERC Staff requested additional information, which the Company provided on August 22, 2008 and September 2, 2008.

The Staff will continue to monitor for FERC decisions that may impact Laclede's customers.

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MISSOURI PIPELINE COMPANY CHARGES

During this ACA period, Laclede had firm transportation service agreements with intrastate pipeline, Missouri Pipeline Company (MPC). On June 21, 2006, the Staff filed a complaint against MPC and Missouri Gas Company (MGC) in Case No. GC-2006-0491. The complaint alleged that, through their transactions with an affiliate, MPC and MGC lowered the maximum transportation rates they could charge non-affiliates. Laclede is a non-affiliate.

The Commission issued its initial Order in Case No. GC-2006-0491 on August 28, 2007, with an effective date of September 7, 2007. This Order was withdrawn on October 4, 2007, and reissued October 11, 2007, with an effective date of October 21, 2007. Although the Commission's Revised Order was effective October 21, 2007, the Order found that, by operation of their tariff, MPC and MGC had lowered their maximum firm reservation rates beginning in May 1, 2005. The Commission further found when on July 1, 2003, MGC lowered rates for its affiliate, Omega, it also lowered both its firm and interruptible commodity rates for all non-affiliates. MPC and MGC, now MoGas Pipeline, implemented new rates effective June 1, 2008 when it became FERC regulated.

MPC and MGC appealed the Commission's Order in GC-2006-0491 to the Cole County Circuit Court. On October 10, 2008, the Circuit Court affirmed the Commission's decision. MPC and MGC have filed a notice of appeal.

The months impacted by this ACA review are October 2006 through September 2007. The lower rates not only affect all months of this ACA period, but also impact the rates charged in prior ACA periods back to the 2004/2005 ACA. The cases for 2004/2005 and 2005/2006 are open.

Prior to August 2007, Laclede paid the rates billed by MPC and passed these rates along to customers. Laclede could not have known the rates it paid would be higher than the maximum rates determined by the Commission in its August 2007 Order.

Laclede received and paid its gas bill for August 2007 in September 2007, and in September 2007 Laclede and MPC were aware of the initial Commission Order in GC-2006-0491. However, MPC continued to bill Laclede rates that exceeded the maximum rates Ordered by the Commission. These MPC transportation charges are included in Laclede's ACA calculation for this review.

After the Commission issued its Order in GC-2006-0491 Laclede was on notice that it had the potential right to refunds for its overpayment of gas costs for this ACA period, as well as earlier periods, and that refunds could be passed on to its natural gas customers. The amount of the overpayment for this period is calculated by comparing the rates authorized by the Commission to the rates paid by Laclede. The total overpayment for this ACA period is $2,129,493. Of this total amount, $157,178 is related to the customers previously served by Fidelity Natural Gas Company and $1,972,314 is related to the remainder of Laclede's customers.

Based on the timing of this ACA period and the date of the Commission's Order, Laclede did not yet have reasonable time to take action to pursue overpayments of gas costs for this ACA period. However there are actions the Staff expects Laclede will take subsequent to this ACA period in order to pursue refunds on behalf of its customers, not only for the 2006/2007 ACA period, but also for prior periods. The Staff expects Laclede to diligently pursue and return any refund received from MPC to its customers through the PGA/ACA. Therefore, the Staff recommends the Commission hold this ACA case open to monitor and evaluate the diligence of Laclede in pursing these refunds for the 2006/2007 ACA and prior periods.

For the 2007/2008 ACA period, Case No. GR-2008-0387, Laclede should provide information regarding all actions it has taken to ensure its customers pay only the authorized maximum MPC transportation rates.

CUSTOMERS PREVIOUSLY SERVED BY FIDELITY NATURAL GAS, INC. (FNG)

For the customers in the area previously served by FNG, the separate tariff was eliminated and the Laclede tariff became applicable during this period. The ACA balance for customers in this area was an over-recovery and was refunded to these customers through a credit to their bills. The credit appeared on the bills in the subsequent ACA period and will be reviewed by the Staff in the 2007/2008 ACA review.

HEDGING

The Staff reviewed the Company's Risk Management Strategy and its hedging transactions applicable to the 2006-2007 ACA period. Weather during the winter period, November 2006 through March 2007, was warmer than normal. Laclede's hedged coverage comes from financial instruments and from storage withdrawals.

The Staff also reviewed monthly hedged coverages. Because Laclede uses a combination of various option strategies that provide limited or partial hedging, Laclede should test their proposed hedges to evaluate the impact on customers of various gas price scenarios (scenarios that may occur during various winter conditions).

This should include a "stress test" evaluation of exposure to market prices to determine how different price increases will impact Laclede's gas portfolio and corresponding PGA rate.

The adequacy of the hedge coverage should be evaluated by Laclede to assess exposure to market prices when only the minimum time driven hedge volume has been obtained.

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Staff has the following comments regarding Laclede's hedging documentation:

> Although the Company provided a copy of its Risk Management Strategy along with some explanations of the workings of each financial instrument and notes regarding certain transactions, the Staff still did not find sufficient details regarding the rationale for some of its hedging transactions. For example, the Company evaluation of the market conditions that either support initiating the hedge or liquidating the hedge position were not clearly provided. In particular, the Staff did not find any detailed explanation as to how the Company initiated liquidating the hedge position before expiration. This should include explanations on whether the purpose of these date specific transactions is to lower the cost of the initial hedge coverage. Other examples illustrate a lack of sufficient hedge documentation detail. The Company has increasingly used various financial hedges that are not fully explained in the documentation provided to the Staff. ** **
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> Furthermore, the Company should maintain some type of evaluation of the financial hedging performance. For example, an analysis of what factor(s) may have been attributable to the gains/losses from the financial instruments could provide a potentially effective hedging guidance on a going forward basis. In essence, the Company should evaluate whether the Company's hedging strategy of utilizing such complex financial instruments serves to mitigate upward natural gas price volatility and benefit the ratepayers. The Company tariffs allow the pass-through of prudently incurred hedging costs. Therefore it should be obligated to provide justification and support for the reasonableness of those hedging expenditures.
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> Staff provided similar comments in the 2003/2004 ACA, GR-2004-0273, in the 2004/2005 ACA, GR-2005-0203, and also in the 2005/2006 ACA, GR-2006-0288. Laclede agreed in its response to the previous ACA recommendation to provide information on a prospective basis. Although the Company provided some additional information for the 2006/2007 ACA, it should still provide complete hedging documentation. Based on the previous ACA recommendations and the Laclede responses, Laclede should provide for the 2007-2008 ACA period forward, for each hedging transaction executed, its detailed rationale supporting its decision and a narrative of the interplay between the hedging purchase or

liquidation and the Risk Management Strategy. The narrative should include but not limited to an explanation of how each hedging transaction and the Risk Management Strategy are specifically related and an explanation of the circumstances under which actual hedging execution varies from the Risk Management Strategy. This should also include all reports that tie the Company's actual hedge results to the targets stated in the Company's Risk Management Strategy. In addition, the Company should continue to provide a specific identification of instruments that are used in conjunction to create a particular hedge strategy. The Staff further recommends Laclede should document all of the aforementioned as each transaction is executed and the documentation should be maintained and be made available to the Staff at the start of each ACA review.

RECOMMENDATIONS

A. It is Staff's opinion that Laclede should do the following:

1. Establish the following account balances in its next ACA filing to reflect the (over)/under recovery of ACA and Refund balances to be (refunded)/collected from the ratepayers as of September 30, 2007:

	Firm Sales non-LVTSS	Firm Sales LVTSS	Interruptible Sales	LP Sales	Firm Transportation	Vehicular Fuel
ACA Balance per Filing	$ 7,464,732	$ 660,456	$ (207,514)	$ 1,605	$ 386,090	$ 38,043
2004/05 ACA Adjustment: LER ** ____________ **	$ (1,677,493)	$ (4,265)	$ (13,455)			
2005/06 ACA Adjustments:						
LER ** ____________ **	$ (2,775,024)	$ (9,100)	$ (25,459)			
LER Under-statement of Off-System Sales Margin	$ (35,375)	$ (116)	$ (325)			
Current 2006/07 Adjustments: LER Supply	$ (1,447,386)	$ (6,337)	$ (10,037)			
Staff Recommended ACA Balance	**$ 1,529,454**	**$ 640,638**	**$ (256,789)**	**$ 1,605**	**$ 386,090**	**$ 38,043**

2. Respond within thirty days to the comments made by Staff in the Reliability Analysis and Gas Supply section regarding data considered for peak day capacity planning; consideration of transportation customers for peak cay capacity planning; downstream pipeline capacity; Sullivan area upstream pipeline capacity; upstream pipeline capacity for service areas other than the Sullivan area; Laclede's underground storage resource; charges for natural gas used by interruptible customers during period of interruption; targets for physical supply; Laclede updating its base load, combination, swing study and evaluating how the natural gas supply Request for Proposal structure should fit with this study; and update its cost/benefit analysis for producer demand charges.

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3. Adjust the ACA balance by $1,463,761 for Laclede's decisions related to the ** ____________ ** agreement and the baseload and swing supply agreement between Laclede and Laclede Energy Resources.

4. Respond within thirty days to the comments made by Staff in the Hedging section.

5. Document and provide to the Staff by March 31, 2009, for each hedging transaction executed, the following information for the 2007-2008 ACA period forward:

   a. For each hedging transaction executed, Laclede's rationale supporting its decision at the time of the specific transaction and a narrative of the interplay between the hedging purchase or liquidation and the Risk Management Strategy in greater detail. This should include all reports that tie the Company's actual hedge results to the targets stated in the Company's Risk Management Strategy and a specific identification of instruments that are used in conjunction to create a particular hedge strategy.

   b. Laclede's evaluation of the market conditions at the time of specific transactions that either support initiating the hedge or liquidating the hedge position. This market evaluation of the market conditions or reports should be tied to specific transactions.

   c. A written explanation of workings of the various option and spreading strategies utilized by Laclede contained in its hedging reports to management, the hedging committee, and/or the board of directors, especially as to what specific financial instruments are utilized by the strategies, why they are used and when the strategies are employed.

   d. ** ____
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   Specific transactions that Laclede actually executed must be utilized to explain the concept.

   e. A report of how much of the Company's monthly hedge targets ** ____________________________ ** are actually achieved for that month and cumulatively.

   f. An evaluation of the financial hedging performance in order to identify factor(s) attributable to the gains /losses from the financial instruments for each winter month.

g. An evaluation of the financial hedging performance in conjunction with the hedging strategy in order to assess whether the hedging execution was reasonably consistent with the hedging plan and to evaluate whether the hedging plan was reasonable to mitigate upward natural gas price volatility.

6. Respond to the recommendations herein within 30 days.

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

1. to continue the review of the affiliate practices and transactions between LER and LGC as noted in the Affiliate Transaction and Fair Market Value section of this Memorandum, and
2. to monitor and evaluate the diligence of Laclede in pursing the Missouri Pipeline Company refunds for the 2006/2007 ACA and prior periods.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company 2007 PGA Filing	))	Case No. GR-2008-0140

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, being of lawful age, on his oath states: that as a utility Regulatory Manager in the Procurement Analysis Department of the Utility Services Division, he has participated in the preparation of the foregoing report, consisting of 18 pages to be presented in the above case; that he has verified that the following Staff Memorandum was prepared by himself and Staff of the Commission that have knowledge of the matters set forth as described below; that he has verified with each of the Staff members listed below that the matters set forth in the Staff Memorandum are true and correct to the best of his knowledge and belief,

Anne M. Allee: Billed Revenues and Actual Gas Costs
Kwang Y. Choe: Hedging
Lesa Jenkins: Reliability Analysis and Gas Supply Planning

that he has knowledge of the matters set forth in such report and that such matters are true to the best of his knowledge and belief.

David M. Sommerer

David M. Sommerer

Subscribed and sworn to before me this 30th day of December, 2008.

Nikki Senn

Notary Public

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016