

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

In the Matter of Missouri Gas Energy’s)
(Laclede) PGA Filing) File No. GR-2015-0203

**RESPONSE TO STAFF’S RECOMMENDATION
AND MEMORANDUM REGARDING MISSOURI GAS ENERGY’S
2014-2015 ACTUAL COST ADJUSTMENT FILING**

COMES NOW Missouri Gas Energy (“MGE” or “Company”), an operating unit of Laclede Gas Company (“Laclede”), and pursuant to the Commission’s Order dated December 12, 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 that same date. In support thereof, MGE states as follow:

1. On December 12, 2017, the Staff filed its Recommendation and Memorandum relating to its review and evaluation of MGE’s billed revenue and gas costs for the July 1, 2014 to June 30, 2015 Actual Cost Adjustment (“ACA”) period (hereinafter “Staff Recommendation”). The Staff Recommendation addresses a number of matters relating to MGE’s gas planning, procurement and hedging activities during the ACA period and recommends the ending ACA balances to use for the period. The Staff Recommendation also requests that the Commission direct MGE to submit a response addressing:

- Staff comments, concerns, and recommendations in the Reliability Analysis and Gas Supply Planning section related to capacity planning, documentation of gas supply awarded, monthly Supply/Demand summary, and documentation of off-system sales and capacity release processes and procedures.
- Staff’s comments, concerns, and recommendations relating to the Company’s Hedging activities.

- Any other comments, concerns or recommendations expressed by Staff and included in its Recommendation.

2. On December 12, 2017, the Commission issued its Order directing MGE to provide a response to the matters raised by Staff. For the Commission's convenience, MGE will respond to such matters in the same order they are presented in Staff's recommendation.¹

RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

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

Capacity Planning

4. At pages 3 to 6 of its Recommendation, the Staff raises a number of concerns regarding the analytical process used by MGE to determine the level of pipeline transportation capacity needed to meet the seasonal demands of its customers for natural gas. The concerns raised by Staff include: (a) the pace at which MGE incorporated in its demand/capacity analysis information from the colder than normal winter experienced by MGE in 2013/2014 as well as the overall frequency with which such analyses are performed (pp. 3-4), (b) asserted shortcomings in the methodology used by MGE to determine peak day or design requirements for its three geographically distinct service areas (pp. 4-5); and (c) what Staff believes is insufficient documentation of how the pipeline capacity procured by MGE is suitably calibrated to meet the individual peak day requirements of those distinct service areas (p. 6).

¹While MGE 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.

5. In response, MGE would note, as Staff does in its Recommendation, that MGE and Laclede Gas completed and provided to Staff in September of 2016 an entirely new Demand/Capacity Analysis to evaluate demand and capacity requirements for both operating units. MGE believes that its new Demand/Capacity Analysis which is set forth in its “2016 Resource Plan” sufficiently addresses the various concerns raised in Staff’s recommendations. Among other features, the Resource Plan: (a) incorporates demand information from the very cold winter of 2013/2014; (b) has a new approach, with additional data points, for estimating peak day or design demand requirements in MGE’s geographically diverse service areas; and (c) has a more robust and documented analysis of how MGE’s pipeline capacity resources are configured to meet the individual peak day requirements of these service areas. MGE intends to consult with the Staff to assess whether and to what extent this analytical approach to demand/capacity planning has indeed addressed Staff’s concerns and whether further improvements or modifications may be useful. In terms of the Staff’s concern regarding the frequency with which the Demand/Capacity Analysis is undertaken, MGE intends to update and submit Resource Plans each year, rather than on a three-year cycle.

Documentation of Gas Supply Awarded

6. At pages 6 to 11 of the Staff Recommendation, the Staff addresses the sufficiency of MGE’s documentation of several gas supply transactions relating to baseload and call agreements awarded in response to a request for proposal (“RFP”) (p. 7); and supply agreements that did not clearly provide for whether gas would be delivered at a primary or secondary delivery point. (p. 8). The Staff also addresses in this section whether certain transactions were 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 and applied to MGE in Case No. GM-2013-0254 (pp. 8-11).

7. Staff's concerns regarding baseload and call agreements awarded in response to an RFP relate primarily to the difficulty Staff has encountered in evaluating bidding information. The difficulty centers on the fact that Staff has been required to review both individual deal sheets as well as the Excel spreadsheets on which bidding information is summarized in order to obtain the necessary information. As the Staff notes in its Recommendation, however, MGE has since made modifications to the Excel spreadsheets it uses for this purpose so that the relevant information can be obtained in one place. MGE believes that these modifications should address Staff's concerns on this topic and will consult with the Staff to obtain its input in that regard.

8. MGE understands Staff's concern at page 8 of its Recommendation regarding having supply agreements more clearly specify whether gas will be delivered at primary or secondary delivery points. MGE will endeavor, where possible, to include greater specificity along these lines in future gas supply agreements.

9. The Staff concerns and recommendations regarding compliance with the documentation requirements relating to MGE's Gas Supply and Transportation Standards of Conduct focuses on specific areas, including: (a) documentation of gas supplies for multi-month periods; (b) documentation of short term purchases of gas supplies; and (c) documentation of unsolicited requests that MGE purchase gas supplies.

10. In terms of documentation for multi-month purchases, the Staff discusses at pages 8-9 of its Recommendation one gas supply purchase in April of 2015 that was initially intended to be a one month purchase but, because of its favorable pricing and the difficulty of procuring supplies at the location where it was purchased, was ultimately locked up for a three-month period.

Because it was extended to three months, Staff observes that the supplies should have been procured under the process established by the Standards of Conduct for multi-month purposes. MGE recognizes Staff's point, but, in MGE's view, the circumstances in this particular instance complicated the ability to conduct the process that would normally be undertaken for a multi-month purchase, and should be treated as an exception to the normal competitive bid and award process.

11. At page 10 of its Recommendation, the Staff expresses concerns regarding the level of documentation retained by MGE relating to short term, daily purchases of gas supplies. The Staff notes that MGE has questioned the practicality and cost effectiveness of using an RFP process for such short-term purchases, but the Staff suggests that instant messaging, emails, website postings and other forms of exchanging information can be used to solicit and document supplier participation in such purchase activities. As shared with Staff in a series of emails sent on April 29, 2016 and July 26, 2016, the Company has in fact developed and implemented a process for using such technology to conduct and document such transactions. It has also trained its employees on the importance of gathering and preserving the competitive bidding information generated by this process and has had its internal audit department conduct a review of the results achieved under the process to ensure it is working. Accordingly, while MGE continues to believe that changes should be made to modify the documentation requirements associated with such daily purchases, and reserves the right to propose such modifications, it believes it is currently conducting such transactions in full accord with the requirements of the Gas Supply and Transportation Standards of Conduct.

12. For the same reasons, MGE also believes it has addressed the Staff concerns regarding documentation of unsolicited requests that MGE purchase gas supply. The enhanced

system that MGE has implemented tracks and documents any unsolicited requests that it purchase gas supply that occurs outside of normal trading hours.

Monthly Supply/Demand Summary

13. At page 12 of its Recommendation, Staff expressed concern about MGE's use of peak day information from 2013/2014 in the Monthly Supply/Demand Summary rather than from 2014/2015. Staff also recommends that MGE review its methodology for estimating warm weather usage for its Supply/Demand summaries. In response, MGE states that the first concern has been addressed in the MGE Resource Plan that was submitted to Staff in September of 2016 and that the second concern relating to estimating warm weather usage will be addressed in its next Resource Plan.

Documentation of Off-System Sales (OSS) and Capacity Release Procedures

14. At page 12 of its Recommendation, Staff recommends that MGE develop and maintain documentation to show compliance with OSS and capacity release processes and procedures as provided in the Gas Supply and Transportation Standards of Conduct. In response, MGE agrees with such recommendation and has developed and is currently maintaining the required documentation.

ACTUAL GAS COSTS AND BILLED REVENUE

15. At pages 12 to 13 of its Recommendation, the Staff identifies an alleged over-recovery of \$319,282.93 based on its review of actual gas costs and billed revenues and recommends that the Company's ACA balances be adjusted accordingly. MGE believes that this "over-recovery" does not, in fact, exist and that part of the "over-recovery" is simply due to a timing difference that has partially and will soon be fully reversed while another part of the adjustment includes duplicate costs that are already reflected in MGE's ACA balances.

Accordingly, MGE believes that the adjustment should be eliminated and to that end intends to arrange a meeting with the Staff to explain in greater detail why it believes this is the case.

SCHOOL TRANSPORTATION PROGRAM BALANCING AND CASH OUTS

16. Laclede believes that this issue, as discussed at pages 13 to 14 of Staff's Recommendation, has been fully addressed in a Partial Stipulation and Agreement between MGE and Staff in File No. GR-2014-0324, that MGE anticipates will be filed for the Commission's consideration within the next week.

HEDGING

17. On pages 14 and 15 of the Recommendation, Staff recommends that the Company should evaluate its hedging strategy in response to changing market dynamics. Staff further suggests that MGE evaluate both its strategy of hedging summer storage injections, and its practice of using swaps rather than financial instruments to hedge. Finally, Staff recommends the Company assess the effectiveness of its hedges based on the outcomes.

18. In response, MGE 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. MGE would also note, as it did in its Response to Staff's Recommendation in the last ACA proceeding, that MGE's hedging strategy has now been changed to match Laclede's so that both operating units are taking a consistent approach. The Laclede-MGE hedging strategy utilizes financial instruments, as suggested by Staff, rather than swaps, which involve more counterparty risk. In addition, Laclede and MGE are constantly evaluating their hedging strategy

and tracking its effectiveness. MGE 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.

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 AND
MISSOURI GAS ENERGY

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing pleading was served on the General Counsel of the Staff of the Missouri Public Service Commission, and the Office of the Public Counsel, on this 26th day of January, 2017 by hand-delivery, fax, electronic mail or by regular mail, postage prepaid.

/s/ Marcia Spangler