GENERAL

Absence of an item in this response does not necessarily mean there is agreement between Laclede Gas Company (Laclede) and Staff.

RELIABILITY AND GAS SUPPLY ANALYSIS

1. **Upstream Pipeline Capacity Analysis**

    a. CEGT Capacity for Peak Day

    Staff recommends Laclede respond to the Company's reliance on a secondary delivery point and the double counting of primary path capacity.

<u>Laclede's Response:</u>
Laclede states that Staff is mistaken. Whereas Staff believes that Laclede had ** ______ ____ ** during the ACA Period, Laclede in fact had ** ____ **. So Laclede was not double counting capacity; it in fact had all the primary capacity listed in its analysis. Staff can confirm this information by reference to Laclede's Transportation Summary, a document routinely provided to Staff during the course of its audit.

Laclede believes that these types of errors can be cleared up prior to the Staff issuing its Recommendation. In the past the Company has suggested to Staff, to no avail, that Staff provide a copy of its recommendation to Laclede well in advance of the Staff's filing with the Commission so that Laclede could have a chance to review it and identify errors that can be rectified before filing. This process would enable the Commission to review a recommendation from Staff that contains more factually accurate information. Laclede renews this request for Staff's consideration.

<u>Staff's Response:</u>
Staff is aware that Laclede has ** ______________________________ ___________ **. In its upstream analysis (GR-2008-0387, DR25), Laclede counts the ** ____

____

____ **

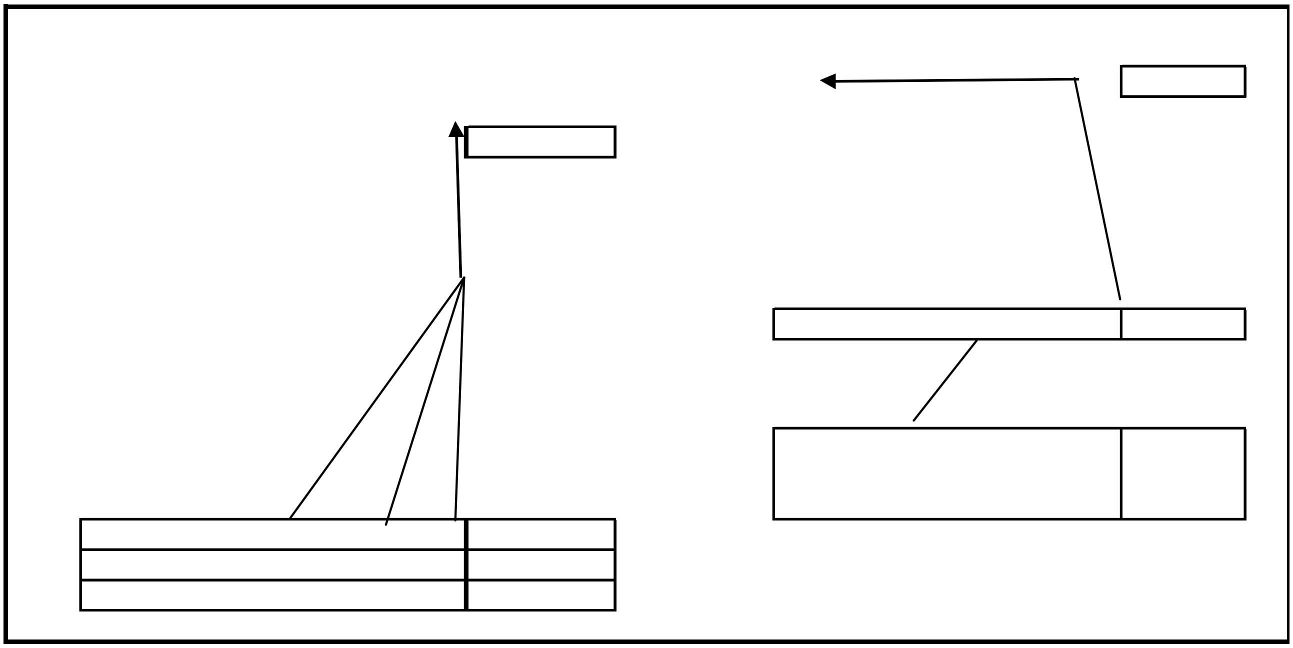
The following tables are HC.

**

**

The following diagram is HC.

**



**

Staff is concerned that Laclede is relying on capacity along a secondary path for its cold day requirements. For rate schedules FT, CenterPoint Energy Gas Transmission Company, FERC Gas Tariff, Sheets 396 and 397 give the highest priority to firm transportation requested at a given Point of Delivery which has designated in the Service Agreement such point as a Primary Point of Delivery. The next highest priority will be for points designated as Secondary Delivery, with capacity allocated first to Shippers for whom the Secondary Delivery Point is within its Primary Path and then, on a pro rata basis based on each Shipper's nomination.

Staff continues to recommend Laclede respond to the Company's reliance on a secondary delivery point and the double counting of primary path capacity for its reliance on capacity for a peak day.

b. Reserve Margin

Staff continues to recommend the Upstream Transportation Analysis be updated to provide a justification of its reserve margin, rather than relying on its assumption of a particular percentage for the reserve margin.

Laclede's Response:
Laclede refers the Staff to the Company's 2007/2008 Reliability Report, wherein Laclede has already performed a statistical analysis that would support a reserve margin in the vicinity of ** ________ ** (approximately ** ________ ** more than assumed in the past) which the Company would be prepared to use in any similar future justification of upstream capacity reserve margin.

Staff's Response:
No additional information is needed from Laclede at this time.

2. **Laclede's Underground Storage Resource**

No response needed. Staff will continue to monitor in future ACA cases.

3. Charges for Natural Gas Used by Interruptible Customers During Period of Interruption

To encourage interruptible customers to curtail usage in times of peak demand, Staff recommends Laclede revise its tariff to tie the charge for natural gas used during curtailments to the higher of $20 (per dekatherm) or the daily index price plus an adder. This same concern was expressed in the 2006/2007 ACA, GR-2008-0140, the 2005/2006 ACA, GR-2006-0288 and the 2004/2005 ACA, GR-2005-0203.

In the response to the 2006/2007 ACA Laclede states it will address this matter in the next rate case.

Laclede's Response:
At Staff's request, Laclede filed proposed tariffs that adjusted the current charge of $2.00 per therm to the higher of $2.00 per therm or the daily NYMEX price plus commodity charges plus PGA charges. The proposed tariff has been filed in Laclede's rate case (GR-2010-0171) and will be administered therein.

Staff's Response:
This issue was addressed in the recent general rate case, GR-2010-0171.

4. **Laclede's Gas Supply Plans** (update justification for supply plans for cost and volumes; target dates for physical supply volumes; and gas purchases for on-system and GSC schedule documentation).

a. Update Justification for Supply Plans for Cost and Volumes

Staff continues to recommend that Laclede update its justification for its supply planning. The award of supply agreements based on applying its **judgment** to pursue the most cost effective combination of these products does not explain the prudency of those costs or volumes. Staff is not suggesting that such a study be structured the same as the study provided in the 2003/2004 ACA. However, supply plans should be updated routinely to address questions raised about cost, including reservation charges, and volumes to assure that MRT storage tolerances are met and the supply is adequately structured to meet warm and cold winter requirements.

Laclede's Response:
Laclede respectfully disagrees. The Company understands the auditor's desire to have something more mechanical to review. However, Laclede's supply decisions are based on the relative advantages the Company discerns from the various RFP responses it receives. There are too many variables to develop a practical formula in advance for acquiring these supplies. Rather, Laclede uses the RFP responses to enhance its understanding of current market conditions before responding. In essence, the formula sought by Staff is in the *approach* Laclede takes to the process; that is, issuing RFPs (as previously recommended by Staff) and then evaluating the responses with a goal of obtaining supplies that are both adequate and cost effective. Because the approach taken by Laclede is prudent (as are other approaches), unless the Company's execution is so egregiously poor as to be unreasonable, Staff has done its job and that should end the inquiry. Having said all this, Laclede is not opposed to developing a study if it believes doing so would be reasonably useful.

Staff's Response:
Staff does not disagree that Laclede should assess current market conditions. However, Laclede's analysis should include its review of the volumes it requires for baseload ** ______________________________ **, and swing gas to meet varying weather conditions. Laclede's evaluation of baseload and swing volumes should be routinely updated and provided to Staff during the ACA review.

Additionally, Laclede's swing supply needs can be met with the ** ______________________________ ** and the demand charges for these can vary greatly depending on the indices used to price the gas. Laclede's evaluation of the costs of the supply, including demand charges, should be included in its evaluation of its supply options, and such evaluation should be provided to Staff during the ACA process. Such cost evaluation should consider the volumes for normal, warm and cold weather.

b. Target Dates for Physical Supply Volumes

** ______________________________

____

**

<u>Laclede's Response:</u>
Similar to deciding on the combination of supplies, Laclede has always approached the timing of acquisition of supply volumes on a flexible basis. Again, based on its reasonable judgment, Laclede may nail down gas contracts earlier in some years and later in others. Consistent with its view as auditors, Staff seeks to impose more structure on the process by recommending that Laclede designate target dates for acquiring supply.

Staff has raised this issue in the past, but this year, Staff added language to its Recommendation indicating that it is not looking for rigid targets, but that it believes some guidelines should be in place to assure reliability. In recognition of Staff's clarification and acknowledgment of the propriety of flexibility in this area, Laclede has reconsidered its position and will explore the feasibility of setting guidelines.

<u>Staff's Response:</u>
A specific time commitment is needed from Laclede on specifically when it will explore the feasibility of setting guidelines.

c. Gas Purchases for On-System and GSC Schedule Documentation

Staff conducted a check of the November OSS to determine whether on-system customers paid the lowest cost of gas at the time of the OSS. Staff found transactions on eleven dates in November where Laclede (1) used lower priced gas for the OSS (rather than using the lower priced gas on-system) or (2) made a spot purchase at a higher price rather than increasing the nomination for a lower priced swing agreement (would have resulted in lower cost for on-system and OSS). These differences were not material. However, because these differences <u>could be</u> material under other circumstances, Staff recommends Laclede evaluate its process to address these findings.

** **

<u>Laclede's Response:</u>
On page 9 of its Recommendation, Staff indicated some immaterial differences in Laclede's assignment of gas between system customers versus off-system sales. The Company has not previously been made aware of these alleged immaterial differences, but is willing to review Staff's data on this subject and address the matter. Laclede also agrees to revise its GSC or provide a separate schedule to aid Staff in matching contract identification numbers to the corresponding contracts.

<u>Staff's Response:</u>
Staff provided the work-paper March 2, 2010. There is no indication in the case filings as to whether Laclede has addressed this issue as it indicated it was willing to do. Laclede should provide a specific date for when it will address this issue.

Laclede's agreement to revise its GSC or provide a separate schedule to aid Staff in matching contract identification numbers to the corresponding contracts is acceptable to this part of the recommendation. Laclede should provide a specific date for when it will make this revision or provide separate schedules.

HEDGING

1. Limited or Partial Hedging

Staff recommends Laclede ** ____
____
____
____
____________________ **

Laclede's Response:
Staff has overstated its point. Laclede and its customers are always exposed to unlimited price risk to the extent of gas purchases that aren't subject to a hedge. A complete hedge tends to be more expensive for customers but gives complete protection according to its terms. A partial hedge tends to be less expensive and correspondingly provides less than complete protection, according to its terms. Together, the complete and partial hedges provide a desired level of protection. Laclede is aware of the impact of its hedges on various price scenarios.

Staff's Response:
Laclede should provide a specific date for when it will provide its analysis of the impact of its hedges on various price scenarios.

2. Time and Price Driven Hedging

** ____
____
____
____ **

Staff recommends Laclede include a report that would allow a straightforward assessment of how much of the Company's monthly hedge targets (expected volume component, price driven and time driven, etc.) are actually achieved for that month and cumulatively in a clear summary form.

Laclede's Response:
Laclede states that its hedging program is reviewed each spring, when the Company determines whether to make any changes to the time and price parameters or the planning horizon.

Laclede also states that, by providing its internal report on this topic, the Company has provided to Staff the information that the Company has. However, the Company is considering the prospect of revising its report. If and when this project is completed, the Company will share the new version of the report with Staff, and hopefully satisfy Staff's concern on this subject.

Staff's Response:
Laclede's response is acceptable.

3. Hedge Documentation

Staff recommends Laclede provide greater detail on each financial hedging transaction executed, its 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. The documentation should include, but not be 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 when that occurs. 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 and a specific identification of instruments that are used in conjunction to create a particular hedge strategy in a clear summary form. The documentation should include 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.

Laclede's Response:
Laclede states it provided information that Staff was seeking in the past, though it would continue to provide information that Staff seeks to clarify.

Staff's Response:
Although Staff acknowledges that Laclede tried to provide information over the past ACA periods for Staff to better understand the hedging practice, some of the information provided was incomplete / not clear. Staff will continue to seek information clarifying Laclede's hedging justification as identified in item 1, above.

4. Performance Evaluation of Hedge Program

Staff recommends the Company develop and provide an evaluation of the financial hedging performance in addition to the reporting of the hedging outcome. The Company should assess and evaluate the outcome of its hedges for the 2008-2009 ACA and beyond. The analysis should include but not be limited to whether the hedging implementation was consistent with the hedging plan, identifying the benefits/costs based on the results from the hedging strategy, and thus evaluating any potential improvements on the future hedging plan and its implementation.

** ____

____ **

The Staff will continue to monitor the operation of the program for the 2008-2009 ACA periods.

Laclede's Response:

Laclede states it regularly reviews and evaluates its hedging program in deciding whether to make changes that may improve the program. Although up to now Laclede has considered the OTC market to be, among other things, less transparent and more risky than the established futures market, and less suited for LDC's that purchase a relatively low amount of baseload gas, Laclede will take Staff's suggestions into consideration, along with other Company objectives, in the course of the Company's regular re-evaluation of its hedging strategy.

Staff's Response:

Laclede's response is acceptable.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company 2008 PGA Filing	)))	Case No. GR-2008-0387

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 10 pages to be presented in the above case; that he has verified that the following Status Report Appendix 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 Status Report Appendix are true and correct to the best of his knowledge and belief,

Lesa A. Jenkins, P.E., Regulatory Engineer:	Reliability Analysis and Gas Supply Planning
Kwang Choe, Ph.D., Regulatory Economist:	Hedging

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

Subscribed and sworn to before me this 1st day of December, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D. Suzie Mankin
Notary Public