

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

In the Matter of Staff's Investigation of Laclede's     )  
Compliance with the Gas Supply Documentation     ) File No. GO-2017-0223  
Requirements of its CAM and Standards             )  
of Conduct   )

**RESPONSE TO STAFF REPORT CONCERNING ITS INVESTIGATION OF  
LACLEDE'S AND MGE'S COMPLIANCE WITH THE GAS SUPPLY  
DOCUMENTATION REQUIREMENTS OF ITS  
CAM AND STANDARDS OF CONDUCT**

**COMES NOW** Spire Missouri Inc. (hereinafter "Spire Missouri" or "Company" ) and  
for its Response to the Staff Report Concerning its Investigation of Laclede's and MGE's  
Compliance with the Gas Supply Documentation Requirements of its CAM and Standards of  
Conduct states as follows:

1. On February 22, 2017, the Commission, at the request of its Staff, issued an Order  
in File No. GO-2017-0223 opening an investigation of Laclede's and MGE's compliance with the  
gas supply documentation requirements of their Cost Allocation Manual ("CAM") and Standards  
of Conduct ("SOC").<sup>1</sup>

2. On August 22, 2017, the Staff filed its Report setting forth the results of its  
investigation. In its Report, the Staff also made a number of recommendations on measures it  
believes the Company should take to enhance its compliance with its CAM and SOC. By  
subsequent Order, the Commission directed the Company to respond to Staff's Report by October  
16, 2017. To that end, the Company submits this response:

**I. BACKGROUND**

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<sup>1</sup>The Commission approved the name change of Laclede Gas Company to Spire Missouri Inc. effective August 31, 2017. Accordingly Spire Missouri Inc. will be used in place of Laclede Gas Company.

3. The Company appreciates the opportunity to provide its perspective on the Staff's report and recommendations in the above referenced matter and to discuss a constructive way to move forward. During the course of this investigation, the Company met with Staff in Jefferson City, had multiple conference calls, including the sharing of screens to walk through worksheets, and provided a substantial amount of information in response to Staff data requests, including an abbreviated audit of daily purchases. As discussed below, as a result of those discussions and its review of Staff's recommendations, the Company agrees to implement almost all of Staff's Recommendations, if it has not already done so. In those limited instances where the Company continues to have concerns with the feasibility or appropriateness of a particular Staff recommendation, it will explain why in this response.

4. Before addressing Staff's specific recommendations, however, the Company believes it would be helpful to put the transactions under review in this case in perspective. During the course of its investigation, the Staff reviewed the Company's compliance with the SOC provisions applicable to the various kinds of gas purchases and sales made by the Company. These include multi-month purchases, purchases made for a one month period and daily purchases. Purchases made by the Company for multi-month and one month periods are done pursuant to a competitive Request For Proposal ("RFP") process, while a variety of competitive measures are followed when making daily purchases.

5. Presented below are the relative volume of purchases that were made by LAC under its multi-month RFP process, monthly RFP process, and daily purchases for fiscal year 2016. The percentage of purchases that were made from the Company's marketing affiliate, Spire Marketing Inc. ("SMI"), formerly known as Laclede Energy Resources, is also noted.

Total Purchases – 80.7 Bcf  
Purchases from SMI – 20.7 Bcf (25.7% of total)

Total Annual (multi-month) Purchases under RFP – 63.9 Bcf (79.2% of total)  
Purchases from SMI – 17.5 Bcf (84.5% of total SMI purchases)

Total Monthly Purchases under RFP – 8.7 Bcf (10.8% of total)  
Total Monthly SMI Purchases – 1.4 Bcf (6.8% of total SMI purchases)

Total Daily Spot Purchases – 8.2 Bcf – (10.2% of total)  
Total Daily Spot SMI Purchases – 1.8 Bcf – (8.7% of total SMI purchases)

Total Daily Spot Purchases on MRT – 5.6 Bcf (68.3% of total spot purchases)  
Total Daily Spot SMI Purchases on MRT – 1.5 Bcf (26.8% of Total MRT Daily Spot)

6. As the above figures show, nearly 90% of the gas purchased by Laclede during FY 2016 was done through an RFP process, either under an annual, multi-month, RFP process or under the monthly RFP process. The RFP process used by the Company complies with the SOC and establishes a fair market price. While the Staff has raised discrete concerns regarding a few features of these transactions (such as the role played by Force Majeure provisions), it has not identified any material compliance issues with the SOC other than the inadvertent loss of email documentation for multi-month transactions for MGE during the 2015/2016 ACA period GR-2016-0225. As previously discussed with Staff, this loss of data was due to a system-wide change in the protocol for retaining emails that eliminated the files for these documents even though they had been specifically saved by our gas supply personnel in an effort to preserve them. As we also indicated, steps were taken as soon as this accidental loss of data was discovered to prevent any recurrence in the future, and the Company is proposing additional measures in this proceeding to further ensure the continued preservation and availability of such data.

7. The remaining area of concern that Staff has focused on relates to the sufficiency of the process employed by LAC to make daily purchases of gas which account for approximately 10% of its overall gas purchases. A small part of this 10% was purchased on the InterContinental Exchange, a trading platform akin to a stock exchange. Although purchases on such an exchange are by definition made at a market price, Staff still believes that Laclede should perform and document separate price discovery. There is simply no good reason to spend resources trying to do price discovery on an exchange purchase. In fact, Laclede would appear silly contacting marketers to ask them to bid on gas that is already being sold at a market price on an established exchange that includes numerous counterparties.

8. Staff also appears to be particularly concerned about that subset of daily purchases (equal to approximately 6.7% of overall purchases) made by LAC off of MRT – a source of gas supply that does not have its own pricing index and that cannot be purchased through a trading platform like ICE. LAC firmly believes that its process for making daily MRT purchases has been consistent with both the purpose and specific requirements of the SOC and that the information provided to or available to Staff has demonstrated this to be true. By its own terms, the underlying goal of the SOC requirements for daily purchases is to “gain the broadest practical participation by eligible suppliers in submitting competitive supply bids for the supply location(s) where Laclede purchases gas.” To that end, every gas supply contract between LAC and its suppliers has provisions providing for the potential purchase and sale of gas on a daily basis, including those used to facilitate purchases off of MRT. LAC has also implemented a consistent practice of transacting daily with the few suppliers available on MRT to further encourage and maintain the broadest practical participation by such suppliers in these daily transactions.

9. These efforts have, without question, resulted in a competitive market for daily purchases sourced off of MRT, as demonstrated by the contemporaneous information maintained and subsequently provided to Staff, including invoices, daily scheduling sheets, and real-time pricing information. The process employed by LAC for making daily purchases off of MRT has resulted in active and consistent bidding by multiple suppliers and led to prices for natural gas that are highly competitive as evidenced by the narrow range separating most daily bids. It has also achieved another primary goal of the SOC by “ensuring that energy-related transactions between Laclede and its affiliates are conducted in a manner fully consistent with the interests of the Company’s utility customers, including their interest in having such transactions priced and accounted for in a reasonable and appropriate manner.” Both the magnitude of the daily purchases made from LER relative to the purchases made from other suppliers, as well as the relative prices paid for such supplies, demonstrates that this fundamental goal has been achieved.

10. Although the Company does not believe that retaining Instant Messages for such transactions is either required by the SOC (given the other data that is available) or particularly useful in assessing the reasonableness of such transactions, it has nevertheless implemented such a protocol and they too have confirmed the highly competitive nature of the process used by LAC to make daily purchases on MRT.

11. In evaluating the sufficiency of the process followed by LAC to make daily purchases on MRT, and what kind of documentation should be maintained in the future, it is also important to keep in mind how small the dollar value is of any competitive variation that might occur as a result of the process on this pipeline. Although MRT does not have its own pricing index, prices for daily purchases made on MRT have historically settled within a narrow range of 1 or 2 cents of the Texas Gas index. As a practical matter, this means that for the 5.6 BCF of

purchases made by the Company on MRT for FY16, the maximum competitive pricing variation that would occur if, and only if, the Company paid the full two cents above the market price for every MRT transaction, would not exceed \$112,000 (5.6 Bcf x \$0.02) – a dollar amount that is significantly less than one tenth of 1% of the value of LAC’s gas purchases for the entire year. The range of potential variations in competitive results is even smaller for transactions involving SMI given that its share of MRT purchases made by LAC during FY16 was only 27% of all the daily purchases made by LAC during that time period. As a result, the maximum dollar value of competitive pricing variations involving daily purchases from SMI, again assuming payment of two cents above the market price for every MRT transaction, would be about \$30,240 (\$112,000 x .27).

12. Given the extremely small value of any competitive price variations that typically occur in connection with daily purchases on MRT, LAC believes that the process it has historically undertaken to ensure that such purchases are priced competitively has not only been effective but extraordinarily robust. It is difficult to conceive of many other situations where more resources have been devoted to ensuring potential competitive gains of such a modest amount.

## **II. STAFF RECOMMENDATIONS**

13. At page 2 of its Report, the Staff states the following regarding the use of published indices to establish competitive prices for natural gas purchases:

The Company refers to documenting the price paid for its purchases and prices that are reflective of daily market conditions, and that these prices paid can be compared to publicly available indices for the same locations. Simply documenting the price paid or comparing the price paid to an index is not meeting the SOC requirement of a competitive bidding process for short-term purchases. An index reports an average and a range of the prices paid. It is prudent and reasonable to expect both the Laclede and MGE divisions to obtain gas at the lowest prices in a competitive bidding process, as long as that gas can be delivered reliably. It is not prudent to

pay an average price or some value in a range of prices if natural gas can reasonably be obtained at a price lower than the average.

14. The Company respectfully disagrees with this flawed assumption. The majority of Missouri LDCs buy index gas for daily, monthly or term deals. Index gas means gas that is purchased at a price that is based on the average price published for specific basin locations. Spire has serious concerns with Staff's statement that "It is not prudent to pay an average price or some value in a range of prices if natural gas can reasonably be obtained at a price lower than the average." The market sets the price of gas at specific locations. That price becomes the index price for that location. At liquid points, that index price is published in a daily guide such as "Platt's Gas Daily." MRT is an illiquid point so it does not have a published index. In this case, the market sets the price at that location based on another index. Thus, the price for gas at MRT is based on the Texas Gas index. Therefore, a price paid at a location based on its index, or proxy index, is by its very nature prudent.

15. Staff's statement above conflicts with the reality of how gas is procured, and the signals sent by the natural gas market. The published natural gas location indices are pricing inputs of all market participants that buy and sell at that location. An average price is calculated based on the volume traded and a range is also published. Gas indices have become even more robust now that the Intercontinental Exchange (ICE) is reporting to Platts, which publishes the gas daily prices and first of month indices.

16. The Company recently participated in a FERC technical conference on Natural Gas Index Liquidity and Transparency (Docket AD17-12-000). There were many market stakeholders in attendance. This included some of the largest suppliers of natural gas and natural gas price publishing entities, including ICE, Platts, and NGI. According to NGI, in 2016, over 70% of next day gas purchases were index deals and more than 80 percent of bid-week or monthly deals were

index deals. Given the pervasiveness with which published index prices are used to set the competitive price at which gas is purchased and sold, the Company believes that the Commission should view the Company's use of them as a fully appropriate and widely accepted tool for meeting its obligations under the SOC.

17. That said, the Company is always willing to enhance its processes for achieving this result. To that end, the Company submits the following responses to the specific recommendations set forth in Staff's report:

A. Staff Recommendation 1. Multi-Month Purchases

Staff recommends the Company: (1) develop and document processes for its exceptions to the competitive bid and award processes for multi-month purchases, (2) SOC training be revised to include a review of the documented exceptions processes, and (3) develop and document criteria for its processes and procedures to effectively monitor and control the implementation of the exceptions to the competitive bid and award process for multi-month purchases.

**Company Response: The Company agrees to Staff Recommendation 1, and will implement within 90 days.**

B. Staff Recommendation 2. Short Term Purchases

Staff recommends the Company revise the Month End Primary Checklist to require and provide all backup of all bids/responses/inquiries received during the month for compliance with the SOC, not just the instant messages ("IMs").

**Company Response: The Company agrees to revise the Monthly End Primary Checklist within 90 days.**

C. Staff Recommendation 3. Short Term Purchases

Staff recommends the Company develop and document criteria for what constitutes a competitive process for short-term purchases including an explanation of the "terms and conditions, location and time at which the purchase was made." Staff recommends the criteria include a minimum number of contacts for each location for each purchase, and procedures for any exception/deviation to the criteria. Staff recommends the criteria explain when it is appropriate to reject any or all bids at a specific location and time.



**Company Response: The Company currently provides the terms and conditions, location and time at which the purchase was made. The Company has made it a practice and has showed in data requests that it documents 2-3 contacts for non-ICE traded points.**

D. Staff Recommendation 4. Short Term Purchases

Staff recommends the Company develop and document criteria for its processes and procedures to effectively monitor and control the implementation of the competitive bidding process for short-term purchases.

**Company Response: The Company currently documents the competitive bidding process for short-term purchases. The Company will, however, formalize the various ways in which it monitors and controls the competitive bidding process for short-term purchases.**

E. Staff Recommendation 5. Short Term Purchases

Staff recommends the Company (1) develop and document the processes for retention of each and every short-term gas purchase, inquiry, and/or award as required by section B.4. of the SOC, (2) revise the Company SOC training to include a review of these documented processes, and (3) establish monitoring and controls to assure compliance with the record retention requirements of the SOC, Section I, and the record retention requirements of the Affiliate Transactions Rules

**Company Response: The Company agrees to discuss this recommendation with Staff within 15 days of this filing.**

F. Staff Recommendation 6. Short Term & Multi-Month Purchases

Staff recommends the Company revise its training for compliance with the SOC and that the training incorporate standard practices, policies, and procedures as discussed in this Report. Staff recommends sample documents be utilized in the training of employees for compliance with the SOC documentation requirements. Examples should be included for each type of supply purchase or sale and for each method of documentation (email, instant message, phone call, Intercontinental Exchange (“ICE”) an electronic trading market, etc.)

**Company Response: The Company agrees to Staff Recommendation 6. In fact, the Company conducted SOC training on September 26, 2017 and will forward the training materials to Staff. The Company will also continue to enhance its training based on this recommendation.**

### **III. OTHER PROPOSED MEASURES**

18. Upon the conclusion of this investigation, the Company looks forward to working with the Staff to develop and propose revisions or additions to the SOC to better ensure that compliance with its goals is undertaken in a sensible, effective and efficient manner. As part of that discussion, the Company intends to propose alternative ways of ensuring that purchases and sales of gas are being done under appropriately competitive circumstances. The Company also intends to explore additional uses of technology so as to make information available to Staff on a more accelerated and comprehensive basis. Hopefully the provision of such information on a more contemporaneous basis will allow both the Company and Staff to process such information more effectively and efficiently.

Respectfully Submitted,

**/s/ Rick E. Zucker**

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ATTORNEYS FOR SPIRE MISSOURI INC.,  
FORMERLY KNOWN AS LAC AND MGE

**CERTIFICATE OF SERVICE**

The undersigned certifies that a true and correct copy of the foregoing was served on Staff and the Office of Public Counsel on this 16<sup>th</sup> day of October, 2017, by hand-delivery, fax, electronic mail or U.S. mail, postage prepaid.

**/s/ Marcia Spangler** \_\_\_\_\_