

*Exhibit No.:*  
*Issue:* Gas inventory carrying  
cost; Form of Service  
Agreement  
*Witness:* David M. Sommerer  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Surrebuttal Testimony  
*Case Nos.:* GR-2017-0215  
GR-2017-0216  
*Date Testimony Prepared:* November 21, 2017

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**PROCUREMENT ANALYSIS**

**SURREBUTTAL TESTIMONY**

**OF**

**DAVID M. SOMMERER**

**SPIRE MISSOURI INC. d/b/a SPIRE  
LACLEDE GAS COMPANY and MISSOURI GAS ENERGY  
GENERAL RATE CASE**

**CASE NOS. GR-2017-0215  
and GR-2017-0216**

*Jefferson City, Missouri  
November, 2017*

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **DAVID M. SOMMERER**

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5 **LACLEDE GAS COMPANY and MISSOURI GAS ENERGY**

6 **GENERAL RATE CASE**

7 **CASE NOS. GR-2017-0215 & GR-2017-0216**

8  
9 Q. Please state your name and business address.

10 A. David M. Sommerer, 200 Madison Street, Jefferson City, MO. 65101.

11 Q. By whom are you employed and in what capacity?

12 A. I am employed by the Missouri Public Service Commission (“Commission”) as  
13 the Manager of the Procurement Analysis Unit.

14 Q. Have you provided your education background and work experience in this file?

15 A. Yes. My education background and work experience is included in the Staff’s  
16 Direct Cost of Service Report filed on September 8, 2017.

17 Q. Are you the same David M. Sommerer that contributed to the Direct Cost of  
18 Service Report filed on September 8, 2017, contributed to the Class Cost of Service Report filed  
19 on September 22, 2017, and filed rebuttal testimony on October 17, 2017 in these cases?

20 A. Yes.

21 **EXECUTIVE SUMMARY**

22 Q. What is the purpose of your surrebuttal testimony?

1           A.     My surrebuttal testimony will address the rebuttal testimonies of Office of the  
2 Public Counsel (“OPC”) witness Chuck R. Hyneman, and Laclede Gas Company  
3 (“LAC”)/Missouri Gas Energy (“MGE”) witness Glenn W. Buck with regard to “treatment of  
4 gas storage inventory costs”.

5           I will also be addressing the rebuttal rate design testimony of LAC/MGE witness Scott. A  
6 Weitzel with regard to “Form of Service Agreement.”

7 **GAS INVENTORY CARRYING COSTS**

8           Q     Do you agree with Mr. Hyneman’s characterization on page 7, line 23 through  
9 29, of his rebuttal testimony that PGA treatment for gas inventory carrying cost was a Staff  
10 ratemaking position”?

11          A.     No; it was a settled position originally agreed to as part of an overall settlement in  
12 a 2005 rate proceeding. Even though LAC’s gas inventory carrying costs were recovered  
13 through the PGA/ACA process for approximately 12 years, the original tariff sheet was approved  
14 as a result of a Stipulation and Agreement. The ratemaking treatment was not altered over that  
15 time period, but was also not litigated.

16          It is also critical to point out that MGE, over this entire timeframe, received a different  
17 ratemaking treatment. MGE’s gas inventory carrying cost was recovered through rate base  
18 inclusion. Therefore, characterizing Staff’s position in this case as “a departure from the  
19 ratemaking position” needs to be clarified in that the Staff ratemaking position for MGE was an  
20 inclusion of gas inventories in rate base. In addition, gas inventory carrying cost for every other  
21 regulated local distribution company in Missouri is and has been recovered through rate base  
22 inclusion for some time.

1 Q. Did Staff have a supposition that LAC is not recovering its inventory carrying  
2 costs, as noted on page 8, lines 20 through 23 of Mr. Hyneman's rebuttal testimony?

3 A. No. Rate base treatment and PGA treatment are two alternatives to recovering  
4 gas inventory carrying costs. They both have the potential to allow recovery of gas inventory  
5 carrying costs.

6 Q. Do you agree with Mr. Hyneman's rebuttal testimony page 8, lines 4 through 8  
7 that Staff recommended a change in long-term ratemaking policy without considering the impact  
8 of the change on ratepayers?

9 A. No, as discussed previously, the inclusion of gas inventory carrying cost in the  
10 PGA should not be considered a Staff long-term ratemaking policy. Furthermore, Staff was  
11 aware that a representative level of short term debt was included in its proposed capital structure.  
12 Short term debt, at current rates of interest, provides a significant offset to any rate impact from  
13 including inventory in rate base when compared to recovering carrying costs in the PGA.

14 Q. Do you agree with Mr. Hyneman's observation that LAC is not including short  
15 term debt in its proposed capital structure? (page 9, lines 17 through 19)

16 A. Yes and this is where Staff disagrees with an important aspect of LAC/MGE's  
17 proposal to include gas inventories in rate base. For this case, it is important to have a reasonable  
18 level of short term debt in the capital structure, as proposed by Staff witness David Murray, to  
19 recognize that gas inventory is typically financed by short term debt.

20 Q. Do you agree with LAC/MGE witness Glenn W. Buck's use of his Schedule  
21 GWB-R1 as providing support that ST Debt need not be included in the capital structure?

22 A. No. First and foremost, you need look no further than Mr. Buck's testimony over  
23 the years to recognize that LAC considers gas inventory to be financed by short term debt. Gas

1 inventory is generally presumed to be cycled (injected and withdrawn periodically). Even in the  
2 instance where there might be portions that are not cycled quickly, the inventory is still  
3 considered to be available for cycling, especially in cold winters. Although Mr. Buck does not  
4 appear to dispute that gas inventories are financed with short term debt, he introduces a Schedule  
5 (Schedule GWB-R1) that purports to show that there are enough short term balance sheet  
6 accounts to explain ongoing levels of short term debt. Having identified those balances, Mr.  
7 Buck postulates that there is no excess short term debt to support gas inventory in rate base.

8 Q. Do you agree with Mr. Buck's theory that there simply is not enough short term debt  
9 left for inclusion in the capital structure to support gas inventory? (See page 3, lines 5 through 12 of  
10 Mr. Buck's rebuttal testimony)

11 A. No. If gas inventory is typically financed by short term debt, then that fact should be  
12 given some weight in the capital structure. Although the calculation of Allowance for Funds Used  
13 During Construction ("AFUDC") assumes that short term debt is considered first, before long term  
14 debt or equity, the other accounts cited by Mr. Buck are not quite as clear as to providing an  
15 appropriate offset when reviewing how much short term debt is available for inventory. In past  
16 years, Mr. Buck has included other accounts (Derivative Asset for example) that he does not include  
17 in Schedule GWB-R1. The purpose in including those accounts was presumably to support Mr.  
18 Buck's argument that ST Debt should not be in capital structure.

19 Although Staff has attempted to obtain a detailed analysis and explanation on why LAC  
20 considered the PGA accounts to be directly connected to short term requirements for cash, and  
21 therefore short term debt, LAC has provided limited explanation as to exactly how the PGA accounts  
22 create an immediate need for cash.

23 In fact, money is fungible, and to attempt to match a few accounts and declare that the use of  
24 the funds has been tracked seems difficult for LAC and MGE to support at best. Cash flow

1 statements are typically used in an attempt to use broad categories to account for what cash is used  
2 for and how it ebbs and flows through various accounts. Mr. Buck's analysis is not a cash flow  
3 analysis.

4 The PGA accounts are designed to be balanced so that one should not assume an inherent  
5 under or over recovery of gas costs. Further, at some points the balance sheet accounts cited by LAC  
6 may include unrealized hedging gains and losses, something that might not create a direct cash (or  
7 short term debt) requirement.

8 Q. If the Commission does not include a level of short term debt that is representative of  
9 including gas inventories in rate base, would you recommend continued rate base treatment in this  
10 case?

11 A. No. In this case, the rate impact of inclusion of gas inventories in rate base without  
12 an offset for short term debt would create a detriment if not offset by some other directly quantifiable  
13 ratepayer benefit that is directly attributable to addressing the rate impact of including gas inventory  
14 in rate base.

15 Q. Do you have comments regarding Mr. Buck's discussion of propane inventory on  
16 page 5, lines 32 through 35, and page 6, lines 1 and 2?

17 A. Yes. Based upon my review of LAC's direct testimony, it appeared to me that  
18 propane was being proposed for rate base inclusion by LAC/MGE. In fact, there is not a Gas  
19 Inventory Carrying Cost "GICC" tariff (sheet 28-h) for continued propane PGA treatment proposed  
20 in LAC's tariffs in this case. It does appear however that LAC excluded propane inventory from its  
21 filed revenue requirement.

22 Q. Do you have concerns with regard to Mr. Buck's statement that the "propane  
23 facilities" (page 5, line 5, and page 6, lines 1 and 2) will be replaced, and therefore were not  
24 considered by LAC to be long-term assets?

1           A.     Before these “systems” are replaced, LAC should be required to request and receive  
2 Commission approval. These are long-standing assets that have been used for many years to help  
3 meet peak day demands. The propane cavern has many economic benefits associated with it, and the  
4 other “propane facilities” comprise an intricate network of moving liquid propane for multiple points  
5 in Laclede’s distribution system. Staff continues to support inclusion of the long-standing LDC  
6 propane assets, including propane inventory, in rate base rather than as described by Mr. Buck in his  
7 rebuttal testimony.

8                   **FORM OF SERVICE AGREEMENT**

9           Q.     Does LAC/MGE witness Scott A. Weitzel agree with the Staff’s recommendation to  
10 include a standard contract (Form of Service Agreement) in its tariffs?

11          A.     No. Mr. Weitzel discusses this issue on page 5, lines 4 through 12, of his rebuttal rate  
12 design testimony. The basis of his disagreement is that “contract templates should not be in rate  
13 tariffs” and “LAC’s current tariff does not contain these contracts”.

14          Q.     Do you agree that those limited reasons provide a strong rationale against including  
15 contract templates in tariffs?

16          A.     No. MGE has had a long-standing practice of including the standard contracts in its  
17 tariffs. With the exception of Empire District Gas and LAC, all other Missouri local distribution  
18 company’s (“LDCs”) have the standard contracts in tariffs. In addition, for many years, the FERC  
19 has required interstate pipelines under its regulation to have “Form of Service Agreements”, basically  
20 standardized contracts. My understanding of the reason for this is to ensure that all material terms of  
21 the contract are known and available for review. If a material deviation from the standard form is  
22 requested, the FERC must review and authorize the change. A mere posting on a website of  
23 whatever might be the most recent version of the contact is not the same as including the approved  
24 version in tariffs.



Surrebuttal Testimony of  
David M. Sommerer

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Q. Does this conclude your surrebuttal testimony?

3

A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's )  
Request to Increase Its Revenues for ) Case No. GR-2017-0215  
Gas Service )

In the Matter of Laclede Gas Company )  
d/b/a Missouri Gas Energy's Request to ) Case No. GR-2017-0216  
Increase Its Revenues for Gas Service )

**AFFIDAVIT OF DAVID M. SOMMERER**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

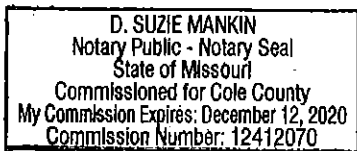
**COMES NOW DAVID M. SOMMERER** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Surrebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

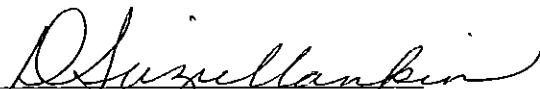
Further the Affiant sayeth not.

  
**DAVID M. SOMMERER**

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 17<sup>th</sup> day of November, 2017.



  
Notary Public