MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2010-0138, Laclede Gas Company

FROM: David Sommerer, Manager - Procurement Analysis Department
Anne Allee, Regulatory Auditor - Procurement Analysis Department
Lesa Jenkins, P.E., Regulatory Engineer - Procurement Analysis Department
Kwang Choe, Ph.D., Regulatory Economist - Procurement Analysis Department

/s/ Dave Sommerer 12/30/10 /s/ Lera Shemwell 12/30/10

Project Coordinator / Date Staff Counsel's Office / Date

SUBJECT: Staff's Recommendation in Case No. GR-2010-0138, Laclede Gas Company's 2008-2009 Actual Cost Adjustment Filing

DATE: December 30, 2010

I. BACKGROUND

The Procurement Analysis Department (Staff) has reviewed Laclede Gas Company's (Company or Laclede or LCG) 2008-2009 Actual Cost Adjustment (ACA) filing. This filing was made on October 30, 2009, and is docketed as Case No. GR-2010-0138. 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, 2008 through September 30, 2009.

Laclede Gas Company serves approximately 630,000 residential, commercial and industrial customers in the St. Louis metropolitan area and the surrounding southeastern counties.

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 its rationale, 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. (Laclede Gas Company is referred to as "LGC" and the marketing affiliate Laclede Energy Resources is "LER") .

The following Table of Contents provides a guide to Staff's recommendations contained in sections I through VI of this Memorandum:

Staff has proposed no adjustments at this time to the Company's filed October 31, 2009 ACA account balances. However, Staff provides recommendations to LGC's gas purchasing practices. Resolution of still-pending contested discovery issues in prior ACA cases concerning Laclede's marketing affiliate, LER, may have an impact on this ACA period in terms of lost off-system sales margins, or the possibility of LER profits that may have been subsidized by LGC ratepayers.

II. RELIABILITY AND GAS SUPPLY ANALYSIS

As a regulated gas corporation and a Local Distribution Company (LDC) providing natural gas service to more than 600,000 Missouri customers, assuring reliability of supply is an essential company function. The Company is responsible for conducting reasonable long-range supply planning and for the decisions resulting from that planning. One purpose of the ACA process is to examine the Company's analysis and the decisions it has made to assure reliability of its gas supply, transportation, and storage capabilities. For this analysis, Staff reviews: the LDC's plans, methods of calculating, and decisions regarding its estimated peak day requirements and the capacity levels to meet those requirements, the rationale and adequacy of the LDC's peak day reserve margin, and the Company's natural gas supply plans for various weather conditions.

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

A. <u>Upstream Pipeline Capacity Analysis</u>

To support the quantity of upstream pipeline capacity needed, Laclede evaluated usage for a record cold day in March and a cold day in February (GR-2010-0138, DR7) and also referred to its 2008/2009 Reliability Report. Because of constraints on withdrawal from Mississippi River Transmission's (MRT) storage facilities and its own on-system resources (Lange Underground Storage and Propane), Laclede evaluates reliability in the event of late winter cold weather.

Staff has concerns with the Company's analysis provided in this case and recommends the upstream pipeline capacity analysis be updated as follows.

1. Centerpoint Energy Gas Transmission (CEGT) Capacity for Peak Day

Staff expressed concerns in the 2007/2008 ACA, GR-2008-0387, and has the same concerns in this case regarding Laclede's CEGT capacity for its Upstream Transportation Analysis (DR7 in this case). Staff concerns are detailed in the GR-2008-0387 Staff Recommendation filed 12/31/2009 (Attached as Exhibit 1, page 3) and in the Staff's Status Report filed 12/1/2010 (Attached as Exhibit 2, pages 1 through 3). ** ____

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2. **MoGas Pipeline (MoGas) Capacity for Peak Day**

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Although the contract for MoGas for this ACA period is for 62,800 MMBtu/day, that capacity is split between two receipt points, one for 57,800 MMBtu/day at the Panhandle Eastern Pipeline (PEPL) receipt point and the remaining 5,000 MMBtu/day at the MRT receipt point. The PEPL contract is only for 55,000 MMBtu/day, meaning that Laclede would only be able to receive approximately 53.4 or 53.5 MMcf/day from PEPL when fuel losses are considered.

Staff recommends Laclede explain how it would deliver natural gas on MoGas from the PEPL and MRT receipt points. This concern is related to the concern for required native supplies on MRT detailed below.

3. **LGC's Natural Gas Supply for February and March Cold Day**

** ____________________ ** Staff recommends Laclede explain which supply contracts could be used with assurance for the required native supply on MRT for its February and March cold day.

4. **Assumptions for Propane Peaking Supply for February and March Cold Days**

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B. **Laclede's Gas Supply Plans**

1. Update Laclede's Justification for its Cost and Volumes in its Supply Plans

Staff expressed concerns in the 2007/2008 ACA, GR-2008-0387, and has the same concerns in this case regarding Laclede's justification for the cost and volumes in its supply plans. Staff concerns are detailed in the GR-2008-0387 Staff Recommendation filed 12/31/2009 (Attached as Exhibit 1, pages 5 to 7) and in the Staff's Status Report filed 12/1/2010 (Attached as Exhibit 2, pages 4 to 5).

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Staff continues to recommend that Laclede update its justification for its supply planning.

2. **Lack of Target Dates for Physical Supply Volumes**

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Staff concerns are the same as those detailed in the GR-2008-0387 Staff Recommendation filed 12/31/2009 (Attached as Exhibit 1, page 8) and in the Staff's Status Report filed 12/1/2010 (Attached as Exhibit 2, pages 5 to 6).

3. **Concerns with RFP Process**

The Company issued an RFP for gas supply bids on 7/15/2008 and responses were due 7/22/2008. The RFP for swing supply is listed under the RFP for Service Types: (A) Supply Services based on First-of-Month Index Pricing (Baseload, Swing, and Combo), and (B) Supply Service based on Daily Index Pricing (Swing). (DR85)

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4. **Documentation for Gas Purchases for On-System and GSC Schedule**

Staff expressed concerns in the 2007/2008 ACA, GR-2008-0387, and has the same concerns in this case regarding Laclede's identification of supply contracts for review in the ACA. Staff concerns are detailed in the GR-2008-0387 Staff Recommendation filed 12/31/2009 (Attached as Exhibit 1, pages 8 to 9) and in the Staff's Status Report filed 12/1/2010, (Attached as Exhibit 2, pages 6 to 7). In summary, the numerical identifier in the GSC Schedules does not tie back to any number on the gas supply agreements.

Staff continues to recommend Laclede add a column to the Gas Supply Contract Summary listing the Laclede contract/GSC Schedule identifier numbers along with the other information currently provided in the Gas Supply Contract Summary. Alternately, Laclede may provide a separate schedule that provides sufficient detail so that the supply agreements in the GSC Schedules can be associated with the specific base load, combination, and supply agreements.

III. AFFILIATE TRANSACTIONS AND FAIR MARKET VALUE

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A. **<u>Assessing Fair Market Value for Affiliated Transactions</u>**

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B. <u>Controls to Assure Affiliated Transactions Are Not Receiving Preferential Treatment</u>

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2. Gas Supply with Affiliate

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IV. MISSOURI PIPELINE COMPANY CHARGES

The Missouri Pipeline Company (MPC) issue is an open item from prior ACA Cases. The Commission found in GC-2006-0491 (Amended Report and Order dated October 11, 2007) that MPC and Missouri Gas Company (MGC), in violation of their tariffs, overcharged non-affiliated customers from July 2003 through May 2008. Discounted rates to MPC and MGC affiliate, Omega, were the maximum rates that could be charged to non-affiliated customers. Since Laclede only transports gas on MPC, the effect of the Report and Order on Laclede began in May 2005. Even after the October 11, 2007 Revised Report and Order, MPC continued to bill Laclede at rates higher than MPC's Commission approved maximum tariff rates. While Laclede paid MPC's bill under protest, Laclede paid and passed these unapproved rates (overcharges) through to its customers. Staff has separated the dollar amount of this issue into the following two pieces based upon the timing of the overcharges:

1. Overcharge amounts Laclede paid to MPC <u>prior</u> to Commission's Order in GC-2006-0491. The rates Laclede paid MPC exceeded the tariff rate established in the Commission's order, but Laclede could not have known the outcome of the Commission complaint.
2. Overcharge amount paid to MPC <u>after</u> the Commission's Order in GC-2006-0491. Laclede knew the rates it was paying MPC exceeded the effective tariff rates established by Commission's October 11, 2007 Revised Report and Order.

The table below shows the total of each piece of the overcharges:

Time Period	Overcharged Amount
May 2005 - July 2007	$ 5,264,963.31
August 07 - May 2008	$ 1,300,853.44
Total	$ 6,565,816.74

History of this issue

During prior ACA periods, Laclede had firm transportation service agreements with then Missouri-regulated intrastate pipeline, MPC. On June 21, 2006, the Staff filed a complaint against MPC and MGC in Case No. GC-2006-0491. The complaint alleged, among other things, that, in accord with its Missouri tariffs, through its transactions with an affiliate, MPC gave its affiliate lower rates and, by doing so, lowered the maximum transportation rates MPC could charge non-affiliates. Laclede is a non-affiliate of MPC.

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The Commission issued its initial Order in Case No. GC-2006-0491 on August 28, 2007, with an effective date of September 7, 2007. The August 28th 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 Report and Order was effective October 21, 2007, the Commission found that, by operation of their tariffs, in giving an affiliate lower rates, MPC and MGC had lowered their maximum firm reservation rates beginning May 1, 2005. The Commission's Order was affirmed by the Western District Court of Appeals. *Missouri Pipeline Co. v. Missouri Public SAerv. Com'n.* 307 S.W.3d 162 (Mo.App. W.D. 2009) *cert. denied* February 2, 2010.

The maximum tariff rates determined by this Commission in its *Revised Order* were lower than the rates MPC billed Laclede. Thus, from May 2005 through July 2007, Laclede paid and passed through to its customers rates that exceeded the maximum tariff rates. These overcharges make up the first piece of this issue. Prior to August 2007, Laclede could not have known the rates it paid would be higher than the maximum rates set by the Commission in its August 2007 Order. The amount of overcharges for this timeframe is $5,264,963.

The second part of this analysis involves the amount Laclede paid MPC after the Commission's Order in GC-2006-0491. The months of this time period are August 2007 through May 2008. By August 2007, Laclede and MPC were aware of the initial Commission Order in GC-2006-0491. Despite the Commission Order, MPC continued to bill Laclede rates that exceeded the maximum tariff rates Ordered by the Commission. Laclede continued to pay the amount billed by MPC. For the overcharges that fall within the second time period, the earliest date Laclede could have refused to pay the overcharged amount is after the Commission issued its initial order. The amount of overcharges for this period of time is $1,300,853.

Recommendation

The Commission's Revised Report and Order became final and unappealable after the Western District Court of Appeals issued its mandate on April 22, 2010. This date falls within Laclede's next ACA period, the 2009-2010 ACA. The Staff expects Laclede to take action to ensure its customers pay only the authorized maximum MPC transportation rates. Therefore, the Staff recommends the Commission hold this ACA case open to monitor and evaluate Laclede's actions with regard to the overcharges paid to MPC. Staff may make further recommendations as necessary.

V. HEDGING

The Staff reviewed the Company's Risk Management Strategy and its hedging transactions applicable to the 2008-2009 ACA periods. The Staff also reviewed monthly hedged coverage. Laclede's hedged coverage comes from financial instruments and from storage withdrawals. Weather during the winter period of November 2008 through March 2009 was near normal.

Staff has the following comments and concerns about Laclede's hedging practice and documentation:

A. Limited or Partial Hedging

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B. Time and Price Driven Hedging

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C. Hedge Documentation

Although the Company provided a copy of its Risk Management Strategy along with some explanations of the workings of each financial instrument and additional notes regarding certain transactions, Laclede should continue to provide Staff sufficient hedge documentation details regarding the rationale for some of its hedging transactions. Examples include the following; the Company evaluation of the market conditions that either support initiating the hedge or liquidating the hedge, and a detailed explanation as to how the Company initiated liquidating the hedge position before expiration.

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Staff recommends Laclede continue to provide greater detail on each financial hedging transaction executed, the 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 and Laclede's evaluation of the market conditions at the time of specific transactions that either support initiating the hedge or liquidating the hedge position.

D. Performance Evaluation of Hedge Program

While Staff is concerned with the negative financial impacts Laclede's hedging had in this ACA period, Staff reviews the prudence of a Company's decision making based on, among other factors, what the Company knew at the time it made its decisions. Laclede has explained that natural gas market price volatility during the 2008-2009 ACA period was a factor. Market prices continued to spike in the first half of 2008 followed by precipitous drops between the second half of 2008 and the early part of 2009. Market prices went from above $13/MMBtu in July 2008 to below $4/MMBtu in March 2009. ** _______________
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____ ** Staff recommends the Company develop and provide an evaluation of the financial hedging performance in addition to the reporting of the hedging outcome. An analysis of what factor(s) may have been attributable to the gains/losses from the financial instruments could provide Laclede effective hedging guidance on a going forward basis. The Company should assess and evaluate the outcome of its hedges for the 2009-2010 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.

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_______ ** The Staff will continue to monitor the operation of the program for the 2009-2010 ACA periods.

Staff provided similar comments in the 2003/2004 ACA, GR-2004-0273, in the 2004/2005 ACA, GR-2005-0203, in the 2005/2006 ACA, GR-2006-0288, in the 2006-2007 ACA, GR-2008-0140, and also in the 2007-2008 ACA, GR-2008-0387. Laclede agreed in its responses to the previous ACA recommendation to provide information on a prospective basis. Although the Company provided some additional information for the 2008/2009 ACA, it should also address the above comments for the 2009-2010 ACA periods forward.

VI. RECOMMENDATIONS

A. Based on the analysis discussed above, Staff recommends that Laclede do the following:

1. For the 2008/09 ACA period, Staff has not proposed a dollar adjustment to the Company filed September 30, 2009 ACA account balances shown in the table below. However, Staff proposes to reserve its recommendation on the ACA balances pending the LER discovery dispute and Laclede's actions with regard to the MPC overcharges. An over-recovery is the amount owed to the customers by the Company and is shown in the table as a negative number. An under-recovery is an amount owed to the Company by the customers and is shown in the table as a positive number.

   The table shows adjustments from prior years because resolution of these cases are pending.

	Firm Sales non-LVTSS	**Firm Sales LVTSS**	**Interruptible Sales**	**LP Sales**	**Firm Transportation**	**Vehicular Fuel**
ACA Balance per Filing	$ (6,713,702)	$ 275,520	$ (446,679)	$ (26,248)	$ (120,285)	$ 25,553
2004/05 Adjustment	$ (1,677,493)	$ (4,265)	$ (13,455)			
2005/06 Adjustment	$ (2,810,399)	$ (9,216)	$ (25,783)			
2006/07 Adjustment	$ (1,447,386)	$ (6,337)	$ (10,037)			
2007/08 Adjustment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2008/09 Adjustment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Staff Recommended ACA Balance	**$ (12,648,980)**	**$ 255,702**	**$ (495,954)**	**$ (26,248)**	**$ (120,285)**	**$ 25,553**

2. There are no dollar adjustments related to Reliability and Gas Supply Analysis. However, Staff has documented concerns and recommends Laclede respond within thirty days to the comments made by Staff in the Reliability and Gas Supply Analysis section regarding (1) Upstream pipeline capacity analysis (CEGT capacity for peak day; MOGas Capacity for Peak Day, Assumptions for Supply for February and March Cold Day, and Assumptions for Propane for February and March Cold Day); (2) Gas supply plans (update justification for its cost and volumes in its supply plans ; target dates for physical supply volumes; concerns with RFP process, and documentation for gas purchases for on-system and GSC schedule).

3. Respond within thirty days to the recommendations made by Staff in the Affiliate Transactions and Fair Market Value section.

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

5. At the start of each ACA review, for the 2009-2010 ACA period and forward, document and provide to the Staff information to address the Staff comments in the Hedging section related to: (1) Limited or Partial Hedging; (2) Time and Price Driven Hedging; (3) Hedge Documentation; and (4) Performance of Hedge Program.

6. Respond to the recommendations herein within 30 days.

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

1. Because the LER discovery dispute remains pending in previous ACA periods, the conclusion of such discovery disputes may impact this ACA period in terms of lost off-system sales margins or LER profits that may have been subsidized by LGC.

2. To monitor and evaluate the Laclede's actions with regard to the overcharges paid to Missouri Pipeline Company for the 2007/2008 ACA and prior periods.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's PGA/ACA Tariff Filing	))	Case No. GR-2010-0138

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,

David Sommerer, Manager – Affiliate Transactions
Anne Allee, Regulatory Auditor – Billed Revenues and Actual Gas Costs
Lesa Jenkins, P.E., Regulatory Engineer – Reliability and Gas Supply Analysis, Affiliate Transactions
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

David M. Sommerer

Subscribed and sworn to before me this 30th 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

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2008-0387, Laclede Gas Company

FROM: David Sommerer, Manager - Procurement Analysis Department
Anne Allee, Regulatory Auditor - Procurement Analysis Department
Lesa Jenkins, P.E., Regulatory Engineer - Procurement Analysis Department
Kwang Choe, Ph.D., Regulatory Economist - Procurement Analysis Department

/s/ David M. Sommerer 12/31/09	/s/ Robert S. Berlin 12/31/09
Project Coordinator / Date	Staff Counsel's Office / Date

SUBJECT: Staff's Recommendation in Case No. GR-2008-0387, Laclede Gas Company's 2007-2008 Actual Cost Adjustment Filing

DATE: December 31, 2009

I. BACKGROUND

The Procurement Analysis Department (Staff) has reviewed Laclede Gas Company's (Company or Laclede or LCG) 2007-2008 Actual Cost Adjustment (ACA) filing. This filing was made on October 31, 2008, and is docketed as Case No. GR-2008-0387. 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, 2007 through September 30, 2008.

Laclede Gas Company serves approximately 629,029 residential, commercial and industrial customers in the St. Louis metropolitan area and the surrounding southeastern counties.

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 its rationale, 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. (Laclede Gas Company is referred to as "LGC" and the marketing affiliate Laclede Energy Resources is "LER").

The following Table of Contents provides a guide to Staff's recommendations contained in sections I through VIII of this Memorandum:

Staff has proposed no adjustments at this time to the Company's filed October 31, 2008 ACA account balances, as shown on the table on page 16. However, Staff provides recommendations to LGC's gas purchasing practices. Discovery of LER information still pending in previous ACA periods may have an impact on this ACA period in terms of lost off-system sales margins, or the possibility of LER profits that may have been subsidized by LGC.

II. RELIABILITY AND GAS SUPPLY ANALYSIS

As a regulated gas corporation and a Local Distribution Company (LDC) providing natural gas service to Missouri customers, assuring reliability of supply is an essential company function. The Company is responsible for conducting reasonable long-range supply planning and for the decisions resulting from that planning. One purpose of the ACA process is to examine the Company's analysis and decisions to assure reliability of its gas supply, transportation, and storage capabilities. For this analysis, Staff reviews: the LDC's plans, methods of calculating, and decisions regarding its estimated peak day requirements and the capacity levels to meet those requirements, the LDC's peak day reserve margin and its rationale, and the Company's natural gas supply plans for various weather conditions.

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

1. <u>Upstream Pipeline Capacity Analysis</u>

   To support the quantity of upstream pipeline capacity needed, Laclede evaluated usage for a record cold day in March and included an evaluation for a cold day in February (GR-2008-0387, DR25) and also referred to its 2007/2008 Reliability Report. Because of constraints on the MRT's Unionville storage withdrawal and its on-system resources (Lange UGS and Propane), Laclede is concerned with late winter cold weather. Staff recommends the upstream pipeline capacity analysis be updated as follows.

a. CEGT Capacity for Peak Day

In the 2006/2007 ACA, GR-2008-0140, Staff recommended the Upstream Transportation Analysis show the capacity separately for CEGT and MRT. Laclede's response in GR-2008-0140 agreed to address Staff's comment and the 2007/2008 upstream analysis shows the CEGT volume separately, and then lists the required native supply on MRT. ** ____ **

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

b. Reserve Margin

In the 2006/2007 ACA, GR-2008-0140, Staff recommended the Upstream Transportation Analysis be updated to provide a justification of its reserve margin, rather than just assuming a particular percentage for the reserve margin.

Laclede's response in GR-2008-0140 agreed to address the appropriateness of the reserve margin. However, the Laclede Upstream Transportation Analysis (GR-2008-0387, DR25) simply shows a 2% reserve margin calculated as 2% of the sendout calculation. Laclede does not explain how such an assumed reserve ties to the standard error, the confidence interval of the regression analysis, or potential growth (positive or negative growth). Because of the timing of the ACA reviews, Laclede would not have had time to make a change for the 2007/2008 ACA.

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.

2. <u>Laclede Underground Storage Resource</u>

Laclede operates an underground aquifer natural gas storage field (Lange UGS) in the St. Louis area. Laclede relies on Lange UGS to provide natural gas for peak day requirements. In the prior five ACA reviews (2006/2007 ACA, GR-2008-0140; 2005/2006 ACA, GR-2006-0288; 2004/2005 ACA, GR-2005-0203; 2003/2004 ACA, GR-2004-0273; and 2002/2003 ACA, GR-2003-0224) ** ____
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________________ ** Staff has the same concern for the 2007/2008 ACA period.

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______________________________ ** The Company is currently undertaking an evaluation of the Lange field to assess the field's current and future capabilities (GR-2008-0140, DR13.5 and GR-2008-0387, DR10 – page 23 of The Laclede Group, Securities Exchange Commission Form 10-k for Fiscal Year ending 9/30/2008).

Based on the timeline for the consultant's evaluation of the storage field, a report should have been provided to Laclede at the end of July 2009 (9/19/08 NITEC letter, signed 11/24/08 by Kenneth J. Neises for Laclede; includes a timeline in 2-week increments with a report due at end of week 34-35). A NITEC letter, dated 2/2/09 signed 2/4/09 by Kenneth J. Neises for Laclede, includes an addendum to the project. Thus, the timeline may have been extended, but the due date is not listed. Staff will continue to monitor Laclede's evaluation of its storage resources in future ACA periods.

3. <u>Charges for Natural Gas Used by Interruptible Customers during Period of Interruption</u>

   It is important that interruptible customers curtail gas usage during times of peak demand so Laclede is able to serve its firm customers, primarily its residential heating customers. The PGA charges in effect during this ACA period were only $2.00 per therm ($20.00 per dekatherm or per MMBtu) for natural gas used by interruptible customers during interruption. This 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 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 recently filed its new rate case (GR-2010-0171).

4. <u>Laclede's Gas Supply Plans</u>

   a. Update Laclede's Justification for its Supply Plans for Cost and Volumes

      Laclede conducted a study of base load, combination, and swing volumes which it provided with the 2003/2004 ACA review. (Data Request No. 106 and 106.1 – 106.5 responses in the 2003/2004 ACA, GR-2004-0273). Laclede has not updated this study in at least four years. Although the Study was provided in the 2003/2004 ACA review, there is no indication of when the study was developed.

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In its response to GR-2008-0387, DR No. 36.1 regarding nomination documentation, Laclede provided a document titled, "The Laclede Group, Inc. Sarbanes-Oxley 404 Compliance" for Natural Gas Supply Acquiring and Managing and Off System Sales Revenue which states, "The gas supply agreements must also have enough flexibility to accommodate both extreme cold and warm weather patterns given the large amount of usage and variations from these two different patterns. This analysis can also be found in the Company's reliability analysis mentioned above."

A review of the 2006/2007 Reliability Report found Section I.C. of the 2007/2008 Reliability Analysis (GR-2008-0387, DR No. 33), lists the Maximum and Minimum Projected Sendout for each month of October through April and a seasonal total for October through April, but it does not show how Laclede structures its supply (volumes of base load, combination, and swing natural gas) to meet the maximum and minimum monthly requirements. The Laclede Reliability Report does not address daily variability, other than the 1935/1936 cold weather pattern which does not address the needed structure of supply (volumes of base load, combination, and swing natural gas). Daily warm weather variability is not addressed.

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In the 2006/2007 ACA, GR-2008-0140, Staff recommended Laclede provide an updated study to Staff explaining how it structures its base load, combination, and swing agreements to assure that MRT storage tolerances are met and how the supply is adequately structured to meet warm and cold winter requirements. Staff also recommended in the 2005/2006 ACA, GR-2006-0288, and the 2004/2005 ACA, GR-2005-0203, that Laclede update the base load/combination/swing study and Staff made recommendations to be considered for the update.

Laclede's response to Staff's recommendation in GR-2008-0140 states:

> Laclede does not believe it would be constructive to either update this study or try to pigeonhole in advance the relative amounts of baseload, combination and swing gas. Laclede cannot approach the RFP process with a preconceived intention of buying a certain amount of combination versus swing volumes. Instead, Laclede evaluates the state of the market each year by gauging the proposals made in the RFP process and applying its judgment to pursue the most cost effective combination of these products. The result of this approach is demonstrated in Staff's observation on page 9 of the Memorandum that contracted volumes of baseload, combination and swing gas diverged from Laclede's study. Hence, performing further baseload/combination/swing studies is not a useful exercise.

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.

b. Target Dates for Physical Supply Volumes

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

GR-2008-0387, DR16 requests information verifying on-system customers have paid the lowest cost of gas at the time the off-system sale was made. Laclede provides its GSC Schedule for each day of the year documenting by pipeline the supplier, costs, contract demand, and nomination. It also provides its daily GSC Schedule for Off-System Sales (OSS) documenting by pipeline the purchaser, volumes, sales price, costs, margin on the sale, and comments regarding the source of gas for the OSS. A handwritten label is included for some of the OSS transactions. The labeling is explained in a separate document for letters A through L, giving twelve reasons why the costs assigned to OSS are higher than the on-system supply costs.

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.

** **

III. AFFILIATE TRANSACTIONS AND FAIR MARKET VALUE

In the past ACA periods, Staff has made adjustments to the Company's gas costs for affiliate transactions between LER and LGC. Staff is not proposing a dollar adjustment for affiliate transactions in this ACA period at this time. However Staff recommends holding this ACA case open pending the LER discovery dispute in Cases GR-2005-0203 and GR-2006-0288 which may impact this ACA period in terms of lost off-system sales margins, or impacts regarding LER profits that may have been subsidized by LGC.

Although Staff has not proposed a dollar adjustment related to affiliate transactions in the ACA period under review, Staff continues to have concerns with LGC's affiliate transactions.

1. <u>Assessing Fair Market Value for Affiliated Transactions</u>

   One way of assessing the fair market value of affiliated agreements is to look at the elements of the underlying supply that was used to fulfill LER's obligation to provide firm service. Staff could not determine, from the information provided, if the underlying gas packages bought by LER were firm or interruptible packages of gas. By definition, the transactions between LGC and LER are not arms-length. A dollar of profit for LER impacts Laclede Group's earnings. Profit or losses for other suppliers not affiliated with Laclede do not impact Laclede Group's earnings. LER and LGC share limited resources regarding access to liquidity and counterparty credit exposures. The same cannot be said for unaffiliated transactions. At some point in Laclede Group's organizational structure, there is common oversight of both LGC and LER. The same cannot be said of unaffiliated transactions. The nature and design of compensation and bonuses can have a bearing on LER's and LGC's common transactions. The same cannot be said of unaffiliated transactions. The time and quantity of day to day nominations can impact the profitability of affiliated LER and LGC transactions. That is not the case with unaffiliated transactions. Thus, the documentation supporting affiliated transactions needs to be clearly identified and provided to Staff to determine the true market value for those transactions.

   The Cost Allocation Manual that Laclede refers to narrowly defines what constitutes fair market value. Just because an affiliate transaction is at index prices, it does not mean that this is the fair market value of the service being received. One example might be where LER sold LGC gas from its interruptible storage at a firm daily price. The fair market value of the gas may be more appropriately stated as the price LER paid to acquire the supply. That is LER's fair market value and that should be LGC's fair market value. LER should not be allowed to obtain interruptible supply and sell it to LGC as firm. In the same manner, LER could be in an over-supplied position. In this situation, LER might sell daily spot gas (presumably at fair market value) to LGC at a point on an upstream pipeline that is convenient to LER. This transaction may not be in LGC's interest.

2. <u>Controls to Assure Affiliated Transactions Are Not Receiving Preferential Treatment</u>

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The primary control cited by Laclede to prevent preferential treatment to LER is the Cost Allocation Manual (CAM) developed by Laclede, which is not consistent with the affiliated transaction rule.

IV. PURCHASING DECISIONS THAT MAY IMPACT CUSTOMER COSTS

1. <u>Off-System Sales Location</u>

** **

2. <u>Supply Pricing Potentially Impacted by Flexibility Now Granted to Marketing Companies</u>

** **

V. FERC REPORTING - OFF-SYSTEM SALES AND CAPACITY RELEASE TRANSACTIONS

In the 2005/2006 ACA, Case No. GR-2006-0288, the Staff expressed concerns over off-system sales and capacity release transactions that possibly violated Federal Energy Regulatory Commission (FERC) regulations and policies regarding capacity release. The Laclede Fiscal Year

Ended September 30, 2009 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 and on February 11, 2009, the FERC Staff submitted follow-up questions to which the Company responded on February 25, 2009. On March 2, 2009, FERC Staff requested clarification of certain aspects of the Company's February 25, 2009 response, which the Company clarified on March 4, 2009.

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

VI. MISSOURI PIPELINE COMPANY CHARGES

During this ACA period, Laclede had firm transportation service agreements with Missouri Pipeline Company (MPC), an intrastate pipeline. On June 1, 2008, the names of MPC and Missouri Gas Company (MGC) changed to MoGas Pipeline when it became regulated by the Federal Energy Regulatory Commission (FERC). Prior to MoGas becoming FERC regulated, on June 21, 2006, the Staff filed a complaint against MPC and 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. The Commission is participating in the current MoGas rate case at FERC.

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. The Western District Court of Appeals affirmed the Commission's decision on December 22, 2009.

The months of this ACA period are October 2007 through September 2008. The lower rates not only affect October 2007 through May 2008 of this ACA period, but also impact the rates charged in prior ACA periods back to the 2004/2005 ACA. The ACA cases for 2004/2005, 2005/2006 and 2006/07 remain open.

Despite the Commission's Order, 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. The amount of the overpayment for this period is calculated by comparing the rates authorized by the Commission to the rates paid by Laclede. Staff calculated the overpayment for this ACA period to be $841,946.86.

The Staff expects Laclede to take action to ensure its customers pay only the authorized maximum MPC transportation rates. Therefore, the Staff recommends the Commission hold this ACA case open to monitor and evaluate Laclede's actions with regard to the overcharges paid to MPC for the 2007/2008 ACA and prior periods.

VII. HEDGING

The Staff reviewed the Company's Risk Management Strategy and its hedging transactions applicable to the 2007-2008 ACA periods. The Staff also reviewed monthly hedged coverage. Laclede's hedged coverage comes from financial instruments and from storage withdrawals. Weather during the winter period of November 2007 through March 2008 was near normal.

Staff has the following comments and concerns about Laclede's hedging practice and documentation:

1. <u>Limited or Partial Hedging</u>

   **

   **

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.

3. Hedge Documentation

Although the Company provided a copy of its Risk Management Strategy along with some explanations of the workings of each financial instrument and additional notes regarding certain transactions, Laclede did not provide Staff sufficient hedge documentation details regarding the rationale for some of its hedging transactions. Examples include the following:

> 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.

The Company has increasingly used various financial hedges, but reasons for using some of the instruments are not fully explained in the documentation provided to the Staff. For

** ______________________________ . **

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.

4. <u>Performance Evaluation of Hedge Program</u>

Staff recommends the Company develop and provide an evaluation of the financial hedging performance in addition to the reporting of the hedging outcome. An analysis of what factor(s) may have been attributable to the gains/losses from the financial instruments could provide Laclede effective hedging guidance on a going forward basis. 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.

Staff provided similar comments in the 2003/2004 ACA, GR-2004-0273, in the 2004/2005 ACA, GR-2005-0203, in the 2005/2006 ACA, GR-2006-0288, and also in the 2006-2007 ACA, GR-2008-0140. Laclede agreed in its responses to the previous ACA recommendation to provide information on a prospective basis. Although the Company provided some additional information for the 2007/2008 ACA, it should also address the above comments for the 2008-2009 ACA periods forward.

VIII. RECOMMENDATIONS

1. Based on the analysis discussed above, Staff recommends that Laclede do the following:

   a. For the 2007/08 ACA period, Staff has not proposed a dollar adjustment to the Company filed September 30, 2008 ACA account balances shown in the table below. However, Staff proposes to reserve its recommendation on the ACA balances pending the LER discovery dispute and Laclede's actions with regard to the MPC overcharges. An over-recovery is the amount owed to the customers by the Company and is shown in the table as a negative number. An under-recovery is an amount owed to the Company by the customers and is shown in the table as a positive number.

	Firm Sales non-LVTSS	Firm Sales LVTSS	Interruptible Sales	LP Sales	Firm Transportation	Vehicular Fuel
ACA Balance per Filing	$ 31,558,923	$ 91,133	$ 439,938	$ 261,889	$ 83,933	$ 21,396
2004/05 Adjustment	$ (1,677,493)	$ (4,265)	$ (13,455)			
2005/06 Adjustment	$ (2,810,399)	$ (9,216)	$ (25,783)			
2006/07 Adjustment	$ (1,447,386)	$ (6,337)	$ (10,037)			
2007/08 Adjustment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Staff Recommended ACA Balance	**$ 25,623,645**	**$ 71,315**	**$ 390,663**	**$ 261,889**	**$ 83,933**	**$ 21,396**

   b. Respond within thirty days to the comments made by Staff in the Reliability and Gas Supply Analysis section regarding (1) Upstream pipeline capacity analysis (CEGT capacity for peak day; and reserve margin); (2) Laclede's underground storage resource; (3) Charges for natural gas used by interruptible customers during period of interruption; and (4) 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).

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

d. Document and provide to the Staff at the start of each ACA review, for the 2008-2009 ACA period and forward, information to address the Staff comments in the Hedging section related to: (1) Limited or Partial Hedging; (2) Time and Price Driven Hedging; (3) Hedge Documentation; and (4) Performance of Hedge Program.

e. Respond to the recommendations herein within 30 days.

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

   a. Because the LER discovery dispute remains pending in previous ACA periods, the conclusion of such discovery disputes may impact this ACA period in terms of lost off-system sales margins or LER profits that may have been subsidized by LGC.

   b. To monitor and evaluate the Laclede's actions with regard to the overcharges paid to Missouri Pipeline Company for the 2007/2008 ACA and prior periods.

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 17 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,

David Sommerer, Manager – Affiliate Transactions
Anne Allee, Regulatory Auditor – Billed Revenues and Actual Gas Costs
Lesa Jenkins, P.E., Regulatory Engineer – Reliability and Gas Supply Analysis
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
David M. Sommerer

Subscribed and sworn to before me this 31st day of December, 2009.

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

GR-2010-0138, Exhibit 1

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.

Laclede's Response:

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.

Staff's Response:

Staff is aware that Laclede has ** ______ **. In its upstream analysis (GR-2008-0387, DR25), Laclede counts the ** ______ **

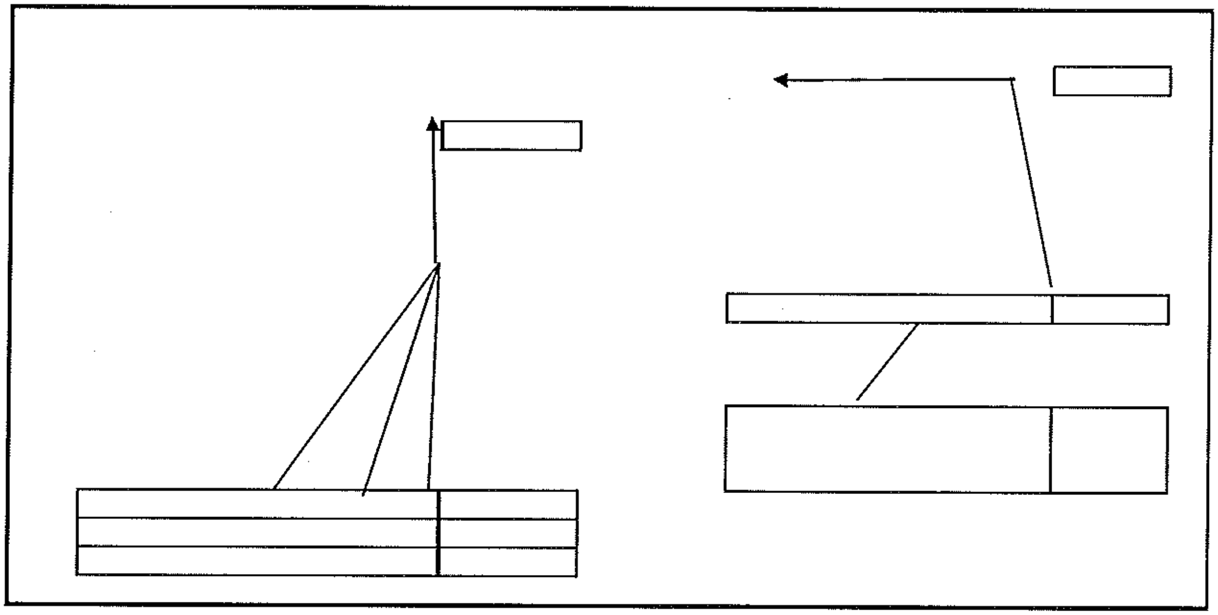
The following tables are HC.

**

**

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.

<u>Laclede's Response:</u>
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.

<u>Staff's Response:</u>
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

** ____
____

**

Laclede's Response:
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.

Staff's Response:
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 could be 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.

<u>Staff's Response:</u>
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.

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

<u>Staff's Response:</u>
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