

*Exhibit No.:*  
*Issue:* Gas Procurement  
*Witness:* David Sommerer  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Rebuttal Testimony  
*Case No.:* EM-2016-0213  
*Date Testimony Prepared:* July 20, 2016

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**PROCUREMENT ANALYSIS UNIT**

**REBUTTAL TESTIMONY**

**OF**

**DAVID SOMMERER**

**THE EMPIRE DISTRICT ELECTRIC COMPANY,  
LIBERTY UTILITES (CENTRAL) CO., AND LIBERTY SUB CORP.**

**CASE NO. EM-2016-0213**

*Jefferson City, Missouri  
July 2016*

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1 **ASSIGNMENT OF INTERSTATE PIPELINE AGREEMENTS AND GAS HEDGES**

2 Q. Please provide the background of the first recommendation regarding  
3 assignment of interstate pipeline agreements.

4 A. Empire District Gas has various service agreements in place with its interstate  
5 pipeline natural gas suppliers. This includes storage, and pipeline capacity both in the field  
6 and market areas. It is standard practice for these interstate pipelines to have a tariff  
7 provision, governed by the Federal Energy Regulatory Commission (FERC), which pertains  
8 to when a shipper such as Empire District Gas merges with another company. An example of  
9 this for ANR Pipeline Company (“ANR”) is as follows from its tariff, Third Revised Volume  
10 No. 1, PART 6.18.4, Assignments;

11 *6.18.4 Assignments.*

12 *Any company which shall succeed by purchase, merger or*  
13 *consolidation to the properties, substantially as an entirety, of Shipper*  
14 *or of Transporter, as the case may be, shall be entitled to the rights and*  
15 *shall be subject to the obligations of its predecessor in interest under*  
16 *an Agreement. Any party may, without relieving itself of its obligations*  
17 *under an Agreement, pledge, mortgage or assign its rights hereunder*  
18 *as security for its indebtedness. Except for such pledge, mortgage or*  
19 *assignment, neither party shall assign an Agreement or any of its rights*  
20 *thereunder without the consent in writing of the other party.*

21 Q. It is noted in this particular interstate pipeline provision that “consent in  
22 writing” is required with respect to an assignment of an agreement. Is this always the case?

23 A. In other situations consent may not be required. The point of Staff’s  
24 recommendation is that the issue should be evaluated by the Company with a definitive  
25 response as to whether assignment of any pipeline agreement is taking place, and whether  
26 such assignment requires written consent of the other party.

1 Q. Please provide some background with regard to gas hedging.

2 A. EDG, like all Missouri regulated local distribution companies, hedges a part of  
3 its natural gas purchase requirements. Various financial instruments can be used to hedge, or  
4 stabilize the price of natural gas including over-the-counter transactions or traditional futures  
5 market transactions. The existing hedges of EDG that are subject to Purchased Gas  
6 Adjustment (PGA) review and potential recovery should not be altered as a result of this  
7 merger. In other words, the cost impact of the existing hedges should not be impacted by the  
8 merger. In some situations, it may be necessary to obtain a counter-party's consent before  
9 these financial instruments are assigned to the acquiring company. If such consent is  
10 required, the Company should provide evidence that such consent has been obtained or, in the  
11 alternative, that no consent is necessary.

12 **COST BENEFIT ANALYSIS SUPPORTING MATERIAL CHANGE TO EDG'S GAS**  
13 **PROCUREMENT PRACTICES**

14 Q. Please explain the second recommendation.

15 A. EDG's existing gas procurement processes and practices differ from Liberty's  
16 in some instances. In order to encourage a thorough evaluation prior to any major overhaul of  
17 EDG's existing practices, it is reasonable to require a cost-benefit analysis that reviews the  
18 advantages and disadvantages of moving toward the Liberty methods of acquiring natural gas  
19 supplies and related services. This preliminary analysis should include, but not be limited to,  
20 an evaluation of EDG's existing supplier availability, hedging methods, gas volume  
21 accounting systems, transportation balancing systems, PGA and Actual Cost Adjustment  
22 recordkeeping and other existing EDG gas procurement practices as contrasted to changing to  
23 a materially different gas procurement practice.

1 **STAFF RECOMENDATIONS**

2 Q. What are Staff's Recommendations for EDG gas procurement issues in  
3 this case?

4 A. Staff recommends the Commission:

5 Order Empire to provide evidence of any required consents for the  
6 assignment of gas contracts, or evidence that such consents and/or  
7 assignments are not necessary. Further, Empire should be ordered to  
8 perform a cost-benefit analysis prior to any major restructuring of  
9 existing gas procurement processes/practices.

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes.

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

In the Matter of The Empire District Electric )  
Company, Liberty Utilities (Central) Co. )           Case No. EM-2016-0213  
And Liberty Sub Corp. Concerning an )  
Agreement and Plan of Merger and Certain )  
Related Transactions )

**AFFIDAVIT OF DAVID SOMMERER**

STATE OF MISSOURI        )  
  )        ss.  
COUNTY OF COLE        )

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

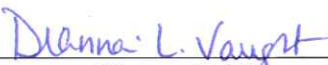
Further the Affiant sayeth not.

  
\_\_\_\_\_  
DAVID 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 19<sup>th</sup> day of July, 2016.

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 28, 2019 Commission Number: 15207377
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\_\_\_\_\_  
Notary Public

## **David M. Sommerer**

### **Educational Background and Work Experience**

In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. I am currently a licensed CPA in Missouri. Upon graduation, I accepted employment with the Commission.

From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the state of Missouri. In 1988, the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department. I assumed responsibility for planning and implementing these audits and trained available Staff on the requirements and conduct of the audits. I participated in most of the ACA audits from early 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy Department. Until November of 1993, my duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased Gas Adjustment (PGA) reviews, and tariff reviews as part of a rate case. In November of 1993, I assumed my present duties of managing a newly created department called the Procurement Analysis Department (now known as the Procurement Analysis Unit). This Department was created to more fully address the emerging changes in the gas industry especially as they impacted the utilities' recovery of gas costs. My duties have included managing the Procurement Analysis staff, reviewing ACA audits and recommendations, participating in the gas integrated resource planning project, serving on the gas project team, serving on the natural gas commodity price task force, and participating in matters relating to natural gas service in the state of Missouri. In July of 2006, the Federal Issues/Policy Analysis Section was transferred to the Procurement Analysis Unit. That group analyzes filings made before the Federal Energy Regulatory Commission (FERC). During the reorganization in August 2011, the Federal Issues/Policy Analysis Section was transferred to the Secretary/ General Counsel Division. In 2015, I assumed the responsibility for the rate design aspects of the Gas Infrastructure System Replacement Surcharge (ISRS) process. The Gas ISRS allows for a more expedited process of including eligible pipeline replacements in rates prior to general rate cases.



**CASES WHERE TESTIMONY**

**WAS FILED**

**DAVID M. SOMMERER**

<b>COMPANY</b>	<b>CASE NO.</b>	<b>ISSUES</b>
Missouri Gas Energy	GO-2016-0197	ISRS Rates
Laclede Gas Company	GO-2016-0196	ISRS Rates
Liberty Utilities (Midstates Natural Gas) Corp d/b/a Liberty Utilities	GR-2014-0152	Special Contact Customers Gas Contract
Missouri Gas Energy	GR-2014-0007	Gas Supply Incentive Plan Property Tax PGA Recovery
Laclede Gas Company	GR-2010-0171	Bad Debt in PGA, CAM
Atmos Energy Corporation	GR-2009-0417	Affiliated Transactions
Atmos Energy Corporation	GR-2008-0364	Affiliated Transactions
Missouri Gas Energy	GR-2009-0355	PGA tariff
Laclede Gas Company	GT-2009-0026	Tariff Proposal, ACA Process
Missouri Gas Utility	GR-2008-0060	Carrying Costs
Laclede Gas Company	GR-2007-0208	Gas Supply Incentive Plan, Off-system Sales, Capacity Release
Laclede Gas Company	GR-2005-0284	Off-System Sales/GSIP
Laclede Gas Company	GR-2004-0273	Demand Charges
AmerenUE	EO-2004-0108	Transfer of Gas Services
Aquila, Inc.	EF-2003-0465	PGA Process, Deferred Gas Cost
Missouri Gas Energy	GM-2003-0238	Pipeline Discounts, Gas Supply
Laclede Gas Company	GT-2003-0117	Low-Income Program
Laclede Gas Company	GR-2002-356	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-629	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-387	ACA Price Stabilization

COMPANY	CASE NO.	ISSUES
Missouri Gas Energy	GR-2001-382	ACA Hedging/Capacity Release
Laclede Gas Company	GT-2001-329	Incentive Plan
Laclede Gas Company	GO-2000-394	Price Stabilization
Laclede Gas Company	GT-99-303	Incentive Plan
Laclede Gas Company	GC-99-121	Complaint PGA
Laclede Gas Company	GR-98-297	ACA Gas Cost
Laclede Gas Company	GO-98-484	Price Stabilization
Laclede Gas Company	GR-98-374	PGA Clause
Missouri Gas Energy	GC-98-335	Complaint Gas Costs
United Cities Gas Company	GO-97-410	PGA Clause
Missouri Gas Energy	GO-97-409	PGA Clause
Missouri Gas Energy	GR-96-450	ACA Gas Costs
Missouri Public Service	GA-95-216	Cost of Gas
Missouri Gas Energy	GO-94-318	Incentive Plan
Western Resources Inc.	GR-93-240	PGA tariff, Billing Adjustments
Union Electric Company	GR-93-106	ACA Gas Costs
United Cities Gas Company	GR-93-47	PGA tariff, Billing Adjustments
Laclede Gas Company	GR-92-165	PGA tariff
United Cities Gas Company	GR-91-249	PGA tariff
United Cities Gas Company	GR-90-233	PGA tariff
Associated Natural Gas Company	GR-90-152	Payroll
KPL Gas Service Company	GR-90-50	Service Line Replacement
KPL Gas Service Company	GR-90-16	ACA Gas Costs
KPL Gas Service Company	GR-89-48	ACA Gas Costs
Great River Gas Company	GM-87-65	Lease Application
Grand River Mutual Tel. Company	TR-87-25	Plant, Revenues

**cont'd David M. Sommerer**

<b>COMPANY</b>	<b>CASE NO.</b>	<b>ISSUES</b>
Empire District Electric Company	WR-86-151	Revenues
Associated Natural Gas Company	GR-86-86	Revenues, Gas Cost
Grand River Mutual Telephone	TR-85-242	Cash Working Capital
Great River Gas Company	GR-85-136	Payroll, Working Capital
Missouri-American Water Company	WR-85-16	Payroll