Exhibit No.:
Issue: ** Swing Supply Demand Charges **
Witness: David M. Sommerer
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2004-0273
Date Testimony Prepared: November 30, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2004-0273

Jefferson City, Missouri
November 2006

** **Denotes Highly Confidential Information** **

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the PGA filing for Laclede Gas Company.	))	Case No. GR-2004-0273

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

David M. Sommerer
David M. Sommerer

Subscribed and sworn to before me this 29 day of November 2004

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898978

Ashley M. Harrison
Notary Public

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SURREBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2004-0273

Q. Please state your name and business address.

A. David M. Sommerer, P.O. Box 360, Jefferson City, Mo. 65102.

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

A. I am the Manager of the Procurement Analysis Department with the Missouri Public Service Commission.

Q. Are you the same David M. Sommerer that filed direct and rebuttal testimony in this case?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my testimony is to respond to the rebuttal testimony of Laclede Gas Company (Laclede, Company) witness George E. Godat.

EXECUTIVE SUMMARY

Q. Please provide an executive summary of your testimony.

A. My direct testimony recommends an adjustment because Laclede paid excessive ** demand charges for the ability to purchase swing gas supply at First of Month (FOM) prices ** without evaluating the cost of this practice. Laclede should have re-

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evaluated this practice when the ** producer demand charges for First of the Month (FOM) pricing almost doubled. **

In his rebuttal, Mr. Godat mischaracterizes my direct testimony. Mr. Godat implies that it is quite common for LDCs to price ** swing supply at a FOM index. ** In point of fact, it would be extremely difficult to identify a reliable breakdown of how ** swing supply ** is priced nationally. Mr. Godat quickly dismisses the practices in Missouri and cites an AGA study from July 2005 for the 2004-2005 winter heating season which simply says that FOM index pricing is a prevailing practice. The AGA study says nothing about whether the FOM pricing is for ** baseload supply, combination supply or swing supply. ** Additionally, it makes no comments evaluating the cost of the ** producer demand charges ** ** for the FOM pricing. ** It is these costs, which have become excessive, that are the reason for Staff's adjustment recommendation.

Mr. Godat incorrectly characterizes Staff's adjustment as being inconsistent with reliable procurement practices. Apparently, Laclede deems any gas purchasing practices other than those contained in its flawed studies to be improper by its argument of long-standing practice. Laclede fails to consider using its ** storage resources and/or FOM supply from its baseload and combo supply contracts to avoid swings in the daily price of natural gas. The idea of using storage and other FOM supply to avoid some or all of the impacts of daily spikes is not only logical** it is totally consistent with economically dispatching supply while managing the overall supply portfolio during the winter months to address reliability.

Q. Do you agree with Mr. Godat that informal processes may be substituted for actual current studies of its practices?

A. No. Mr. Godat is in a difficult position when it comes to defending the outdated study from ** 1996 or the after-the-fact study from 2005 ** In trying to do so, Mr. Godat goes back and forth, balancing a need to distance himself from the flawed studies, while taking every opportunity to use them to buttress the Company's position. Laclede now asserts that ** "informal daily monitoring" ** of the market makes a formal study unnecessary. Laclede argues that because it has engaged in this practice for some time, the fact that costs have doubled requires no justification.

Mr. Godat's assertion that off-system sales profits should be credited against the Staff's adjustment is misguided. This suggestion ignores the obvious fact that ** off-system sales should not drive the Company's decision to use a particular pricing provision. ** Both Laclede and its customers benefit from off-system sales and capacity releases. This does not, however justify the high ** demand charges Laclede paid to have an option to produce those sales. Laclede's firm customers, not its off-system sales customers pay these increased charges. Besides paying much higher demand charges by using FOM prices, Laclede sacrifices the ability to purchase gas at cheaper daily prices in a declining market. **

**** FOM PRICING AS A PRACTICE ****

Q. On page 2, of his rebuttal testimony, Mr. Godat refers to discussions with ** producers and an AGA study to support his contention that FOM pricing for swing gas is common.. ** What is your response?

A. I do not dispute the idea that producers would price various types of supply in many different ways. Depending on the Local Distribution Company's (LDC's) requested price structure, producers might provide a ** fixed price quote, provide quotes for various flexibility alternatives, index quotes, etc. Based upon my experience, pricing of swing supply

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for Missouri LDCs tends to be at a daily price instead of a FOM price. That doesn't mean Laclede's practice is imprudent or that other LDC's practices are imprudent. ** It is simply a factor that should be considered when establishing that there is a valid alternative to Laclede's practice.

With regard to the 2005 AGA study that Mr. Godat cites, a study that pertains to a winter after this ACA period, it is plain to see that the quote he uses merely says that ** "…first-of-month pricing dominates the market for long and mid-term supply…". ** The July 2004 AGA report, LDC Supply Portfolio Management during the 2003-2004 Winter Heating Season, which is the report that summarizes the winter period in question in this case, states ** that first-of-the-month index pricing dominates the market for long- and mid-term supply agreements.[1] It says nothing about whether the FOM pricing is for baseload supply, combination supply or swing supply. The majority of swing supply could be priced using a daily index, but the AGA report does not provide this level of detail. Additionally, the AGA report makes no comments regarding the cost of producer demand charges for the FOM pricing. The AGA report states, "Recent survey results reflect a transition toward shorter-term and spot contracts to meet peak requirements, which has been consistent with demands from consumers, regulators and the market, in order to pursue least cost options." **

RELIABILITY

Q. Mr. Godat spends pages 3 through 5, of his testimony discussing various constraints on Laclede's system. Is this discussion relevant?

** [1] The American Gas Association, July 2, 2004 report, LDC Supply Portfolio Management During the 2003-2004 Winter Heating Season, defines long-term gas supply agreements as one year or longer and mid-term agreements as more than one month and less than one year. **

A. No. Mr. Godat misses the point. The Staff is not asserting that the Company could have used ** storage gas and propane to avoid acquiring any swing supply. ** Nor is the Staff suggesting that some other level of ** swing supply capability should have been acquired. The Staff's review indicates that a different pricing provision for swing supply should have been carefully evaluated before the Company paid substantial demand charges. Staff asserts that it was imprudent and myopic to rely on outdated studies when demand charges nearly doubled. **

A FORMAL STUDY

Q. Do you agree with Mr. Godat's pronouncement on page 6 of his rebuttal testimony that a formal study was neither a necessary nor appropriate prerequisite to continuing ** to pay demand charges on swing supply? **

A. No. The outdated ** 1996 study and the after-the-fact 2005 study ** are so difficult to support that Laclede merely uses them as an aside or as insurance in case some of the other more intangible rationale fails. In fact the ** 1996 study only looked at 1 year. ** Weather can impact the price of natural gas and since weather changes from year to year, it is not appropriate to consider whether or not ** FOM pricing for swing gas ** is appropriate given only one year's weather. Notably, footnote references in the ** 1996 study caution that supplies might be dispatched or ordered differently if the Company had daily pricing provisions. The footnotes also indicate lower reservation charges would likely be achieved from a daily pricing approach scenario. The 1996 and 2005 studies suffer from the same flaws in that they do not distinguish between types of supply used by an LDC. For example, baseload supply is used at a very constant rate and high load factor (amount of total capability versus actual use). Swing supply on the other hand might be seldom used, especially in a mild winter. While it may make sense to price baseload supply using a FOM index, the same may not be true for other types of supply. The producer demand charges for baseload supply using a FOM index is typically lower than producer demand charges for swing supply using a FOM index. **

Furthermore, inclusion of ** off-system sales volumes is not appropriate in these analyses. ** The method Laclede's studies use is to claim "savings" anytime the ** average daily price exceeds Laclede FOM pricing and the result is an unwarranted amplification of the effect of large daily prices spikes that Laclede would not have experienced as an on-system cost. **

LACLEDE'S RATIONALE BEYOND THE STUDIES

Q. What do you mean by other "intangible rationale"?

A. It is apparent that Mr. Godat is hedging his support of Laclede's studies. The studies were not provided in his direct or rebuttal testimony. I provided them. Faced with the flaws in those studies, a laundry list of rationale is provided by Laclede on why it was somehow self-evident that ** FOM pricing should be used for swing supply. ** These rationales are interwoven on pages 6 through 8 of his rebuttal testimony. The practice of ** pricing swing supply ** is referred to as "long-standing". Yes, Laclede has generally ** priced swing supply using FOM pricing. However, the practice should have been re-evaluated when prices of the producer demand charges for FOM pricing almost doubled. No doubt, Laclede monitors the market on a daily basis and has an informal ability to monitor market changes. Such an information monitoring could certainly provide a clue that demand charges were rising dramatically. ** It is actually an argument that shows Laclede is not just a casual observer of the market, but had reason to look at the issue in more refined detail.

Granted, reliability is critical, but references to its importance do not take away from Laclede's obligation to use ** the flexibility in its portfolio to consider reliable ways that daily price spikes could be mitigated in a daily pricing approach. **

MR. GODAT'S CRITISM OF STAFF'S PROPOSED DISALLOWANCE

Q. Has Mr. Godat criticized the Staffs analysis of damages?

A. Yes. On page 9, of his rebuttal testimony, Mr. Godat criticizes the damage calculation in three ways. He seems to think that the Staff should use the five years prior to the 2003-2004 period to evaluate damages. The Staff's analysis, by necessity, has to assess whether any damages were actually incurred for the 2003-2004 period. In some instances there can be a faulty decision, for example, ** reliance on flawed outdated studies, but there is no harm to customers, so **, there is no disallowance. However, in this case, after the Staff recognized that Laclede's main support was a ** 1996 study, a study that was out of date, limited in nature, which contained obvious flaws, and was offered up as the main support for Laclede's decision to pay increased demand charges for FOM pricing, Staff determined that Lalcede's captive customers paid more for gas than was reasonable. ** (See Sommerer Direct Schedule 4), Staff's assessment shows that damages occurred in the ACA period.

Q. What do you mean by saying the ** 1996 study ** was offered up as the main support for Laclede's decision?

A. In my direct testimony, Schedule 4, I provided the Data Request that asked for Laclede's cost benefit analysis ** of FOM pricing. ** The question and answer is provided in part as follows from Sommerer Direct Schedule 4-4:

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> ** Q. Has the company done any cost benefit analysis or any study regarding the alternative of using "daily index" pricing for swing supply and possibly some combo supply rather than paying producer demand charges with first-of-month pricing? If yes, please provide this. If not, how does Laclede know that swing and combo supply contracts with fixed charges and FOM pricing, is a better option than swing and combo contracts with daily pricing?
>
> A. The last time the Company made such a quantification was after the end of the 1995-1996 heating season when the Company estimated that it had saved at least $16 million through its use of first-of-month pricing instead of daily index pricing for its gas purchases during that season. **

As time has passed, the Company has added to the support for its decision.

Q. Does Mr. Godat raise other rationalizations for why there should not be a disallowance?

A. Mr. Godat says that the Staff focused only on the ** swing contracts. ** That is correct. The adjustment is related to ** swing supply pricing and not baseload or combination supply pricing. Baseload, combination and swing supplies serve different purposes and the associated producer demand charges are not the same. The Staff's calculation is not meant to be an alternative study to evaluate the costs and benefits of swing contracts rather than baseload or combination contracts. It is meant to estimate the damages that resulted from the Company's failure to adequately evaluate whether there was any justification for customers to pay the massive increase in producer demand charges for swing gas supplies. **

The final criticism of the Staff's calculation is that it somehow failed to give a credit for net revenues from off-system sales. Such a credit is unsupportable and would be totally speculative. The questions include:

1) Had Laclede chosen a ** daily pricing scenario for its swing supply, would the customers have forgone beneficial off-system sales? It is nearly impossible to determine. **

2) ** Could combination agreements have been used to facilitate the off-system sales? This is certainly an option available to Laclede. **

3) ** Was there an opportunity lost from not having swing supply at a daily index? For example, would there be some benefit for the customer in having increased access to daily priced supply that is lower than the FOM price in the vast majority of the rest of the portfolio? **

LACLEDE'S STUDIES, ADDITIONAL FLAWS

Q. Mr. Godat continues to extol the virtues of Laclede's studies on page 9, lines 4-14. Do you have other comments regarding these studies?

A. Yes. Laclede was unable to produce the underlying data and source information for its ** 1996 study. Even for the 2005 study, Laclede produced some of the underlying information in electronic form, but was unable to provide a working model of the spreadsheet that was used to develop the study. ** That meant the key formulas could not be viewed or easily be tested or verified by the Staff. It was also difficult to construct scenarios from the studies in that much of the information had to be reentered by the Staff to analyze Laclede's information.

Based upon some higher level review of the studies, it became clear that the 2005 ** study contained a data entry error that caused an approximate $8.5 million overstatement of Laclede's alleged savings. (See Schedules 1 and 2 attached to this testimony.) Also apparent from both the 1996 and 2005 studies is that one month can have a tremendous

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impact on the perceived savings. For example, months that experienced large daily price spikes included February 1996, December 2000, and February 2003. It is reasonable to assume that much of these daily spikes could have been mitigated (with due regard to reliability). Further, artificially piling on savings from baseload agreements that would have been priced at FOM under both alternatives is simply wrong. **

Q. Is there an additional flaw in the Laclede studies?

A. Yes, the way the studies have been constructed, ** demand charges are averaged over the years. This implies that an on-going level of demand charges is not the more current levels of more than $20 million ** but some much lesser amount that does not reflect the current ** cost of producer demand charges. **

Q. Do you see any inconsistency, as Mr. Godat notes on page 11, in Staff's conclusions about off-system sales?

A. No. Staff believes that Laclede's use ** of FOM pricing for swing supply is in part driven by the profit potential from off-system sales. While there is a connection between the payment of producer demand charges and the opportunity for off-system sales, it is not inconsistent to eliminate the effects of off-system sales when the direct benefits are not quantifiable. The benefits are not quantifiable because the assumption Laclede makes is that absent swing supply pricing at FOM, off-system sales do not occur. Further Mr. Godat's assumption seems to be that no countervailing benefits are derived from daily pricing of swing supply. **

Q. Do you agree with or understand Mr. Godat's consternation about the relevance that Laclede's marketing affiliate LER has on this issue?

A. No. Mr. Godat explains that LER ** is only 3% of the total volume of off-system sales made by Laclede. He takes issue with my characterization that LER "significantly participated" in off-system sales made by Laclede. The availability of FOM pricing to the affiliate can provide a ready source of supply at very favorable pricing. LER participates in many of the same markets as Laclede Gas Company and has access to the very same producers that Laclede buys gas from. It is not at all unreasonable to assume that the potential exists for LER to repurchase supply from a producer that Laclede has already made an off-system sale to. That expands LER's opportunities which appear to be increasing. **

Q. Does this conclude your surrebuttal testimony?

A. Yes.

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Missouri Public Service Commission

Respond Data Request

Data Request No.	0111
Company Name	Laclede Gas Company-Investor(Gas)
Case/Tracking No.	GR-2004-0273
Date Requested	9/28/2006
Issue	General Information and Miscellaneous - Company Information
Requested From	Mike Cline
Requested By	Dave Sommerer
Brief Description	Coenergy reconciliation
Description	Please fully explain why the CoEnergy pricing for January 2001 and March 2001 found in the FOM part of Company"s analysis in Staff Direct Testimony Schedule 5 is not consistent with the contractual pricing or other months. If this is an error, please provide the correct price.
Response	The prices in the analysis are not correct. The CoEnergy price was based on the average of two indices for PEPL and one of those indices did not post for the months of Jan and Mar therefore the index that was used in the analysis is roughly half of the actual price for those months. The prices should have been $9.67 for January and $4.745 for March.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **GR-2004-0273** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Laclede Gas Company-Investor(Gas)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Laclede Gas Company-Investor(Gas)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Highly Confidential
Rationale :	Marketing analysis or other market-specific information relating to services or products purchased or offered in competition with others

With Proprietary and Highly Confidential Data Requests a Protective Order must be on file.

Schedule DMS 1

Highly Confidential

Sources:

Inside FERC Gas Market Report

Laclede DR 108

Case No. GR-2004-0273

		Coenergy FOM PEPL	Laclede FOM	Laclede Daily	Volumes	Index Error	Overstatement
October, 1998	$0.26	$1.90	$1.64	$1.53	780,000		
November, 1998	$0.26	$1.95	$1.70	$1.77	795,000		
December, 1998	$0.26	$2.06	$1.81	$1.50	1,330,000		
January, 1999	$0.26	$1.78	$1.52	$1.55	1,525,000		
February, 1999	$0.26	$1.76	$1.50	$1.44	1,165,000		
March, 1999	$0.26	$1.58	$1.32	$1.41	1,405,000		
April, 1999	$0.26	$1.76	$1.50	$1.78	1,000,000		
May, 1999		$2.22					
June, 1999		$2.12					
July, 1999		$2.17					
August, 1999		$2.51					
September, 1999		$2.77					
October, 1999	$0.26	$2.43	$2.17	$2.40	725,000		
November, 1999	$0.26	$2.94	$2.68	$1.96	765,000		
December, 1999	$0.26	$2.06	$1.81	$2.04	1,495,000		
January, 2000	$0.26	$2.26	$2.00	$2.01	1,420,000		
February, 2000	$0.26	$2.50	$2.24	$2.23	1,220,000		
March, 2000	$0.26	$2.48	$2.22	$2.44	910,000		
April, 2000	$0.26	$2.79	$2.53	$2.66	860,000		
May, 2000		$2.94					
June, 2000		$4.21					
July, 2000		$4.20					
August, 2000		$3.70					
September, 2000		$4.49					
October, 2000	$0.26	$5.19	$4.93	$4.59	825,000		
November, 2000	$0.27	$4.41	$4.15	$5.23	1,340,000		
December, 2000	$0.26	$5.88	$5.62	$8.58	1,645,000		
January, 2001	$5.22	$9.92	$4.70	$8.02	1,285,000	4.97	$6,386,450
February, 2001	$0.27	$6.22	$5.95	$5.45	1,180,000		
March, 2001	$2.77	$5.01	$2.25	$4.86	835,000	2.495	$2,083,325
April, 2001	$0.25	$5.31	$5.06	$4.81	600,000		
							$8,469,775

Laclede response to DR 111

The prices in the analysis are not correct. The CoEnergy price was based on the average of two indices for PEPL and one of those indices did not post for the months of Jan and Mar therefore the index that was used in the analysis is roughly half of the actual price for those months. The prices should have been $9.67 for January and $4.745 for March.