

Exhibit No.:

Issue: **

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 ****

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

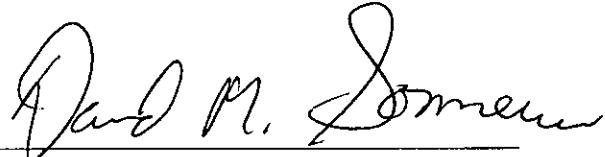
In the Matter of the PGA filing for Laclede Gas)
Company.)

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.

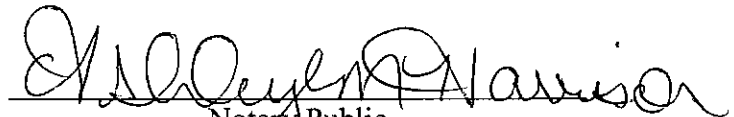


David M. Sommerer

Subscribed and sworn to before me this 29 day of November 2009



ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898878



Notary Public

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SURREBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2004-0273

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LIST OF SCHEDULES:

- Schedule 1: Highly Confidential Data Request 111
- Schedule 2: Highly Confidential Staff’s calculation of the error

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1 evaluated this practice when the ** _____
2 _____ **

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

13 Mr. Godat incorrectly characterizes Staff's adjustment as being inconsistent with
14 reliable procurement practices. Apparently, Laclede deems any gas purchasing practices
15 other than those contained in its flawed studies to be improper by its argument of long-
16 standing practice. Laclede fails to consider using its ** _____
17 _____
18 _____
19 _____ ** it is totally consistent with economically dispatching supply while
20 managing the overall supply portfolio during the winter months to address reliability.

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

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

8 Mr. Godat's assertion that off-system sales profits should be credited against the
9 Staff's adjustment is misguided. This suggestion ignores the obvious fact that ** _____
10 _____ ** Both
11 Laclede and its customers benefit from off-system sales and capacity releases. This does not,
12 however justify the high ** _____
13 _____
14 _____
15 _____ **

16 ** _____ **

17 Q. On page 2, of his rebuttal testimony, Mr. Godat refers to discussions with
18 ** _____
19 common. ** What is your response?

20 A. I do not dispute the idea that producers would price various types of supply in
21 many different ways. Depending on the Local Distribution Company's (LDC's) requested
22 price structure, producers might provide a ** _____
23 _____

1 _____
2 _____ ** It is simply a
3 factor that should be considered when establishing that there is a valid alternative to Laclede's
4 practice.

5 With regard to the 2005 AGA study that Mr. Godat cites, a study that pertains to a
6 winter after this ACA period, it is plain to see that the quote he uses merely says that

7 ** _____ **

8 The July 2004 AGA report, LDC Supply Portfolio Management during the 2003-2004 Winter
9 Heating Season, which is the report that summarizes the winter period in question in this case,
10 states ** _____

11 _____
12 _____
13 _____
14 _____
15 _____
16 _____
17 _____ **

18 **RELIABILITY**

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

** _____

_____ **

1 A. No. Mr. Godat misses the point. The Staff is not asserting that the Company
2 could have used ** _____ ** Nor is
3 the Staff suggesting that some other level of ** _____
4 _____
5 _____
6 _____
7 _____ **

8 **A FORMAL STUDY**

9 Q. Do you agree with Mr. Godat's pronouncement on page 6 of his rebuttal
10 testimony that a formal study was neither a necessary nor appropriate prerequisite to
11 continuing ** _____ **

12 A. No. The outdated ** _____ ** are so
13 difficult to support that Laclede merely uses them as an aside or as insurance in case some of
14 the other more intangible rationale fails. In fact the ** _____ **
15 Weather can impact the price of natural gas and since weather changes from year to year, it is
16 not appropriate to consider whether or not ** _____ ** is appropriate
17 given only one year's weather. Notably, footnote references in the ** _____
18 _____
19 _____
20 _____
21 _____
22 _____
23 _____

_____ **

Furthermore, inclusion of ** _____

_____ ** The method Laclede's studies use is to claim "savings" anytime the ** _____

_____ **

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 ** _____ ** These rationales are interwoven on pages 6 through 8 of his rebuttal testimony. The practice of ** _____ ** is referred to as "long-standing". Yes, Laclede has generally ** _____

_____ ** 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.

1 Granted, reliability is critical, but references to its importance do not take away from
2 Laclede's obligation to use ** _____

3 _____ **

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

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

6 A. Yes. On page 9, of his rebuttal testimony, Mr. Godat criticizes the damage
7 calculation in three ways. He seems to think that the Staff should use the five years prior to
8 the 2003-2004 period to evaluate damages. The Staff's analysis, by necessity, has to assess
9 whether any damages were actually incurred for the 2003-2004 period. In some instances
10 there can be a faulty decision, for example, ** _____

11 _____ **, there is no disallowance. However, in this case, after the
12 Staff recognized that Laclede's main support was a ** _____

13 _____
14 _____
15 _____ ** (See
16 Sommerer Direct Schedule 4), Staff's assessment shows that damages occurred in the ACA
17 period.

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

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

Surrebuttal Testimony of
David M. Sommerer

1 ** _____
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____ **

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

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

16 A. Mr. Godat says that the Staff focused only on the ** _____ ** That
17 is correct. The adjustment is related to ** _____

18 _____
19 _____
20 _____
21 _____
22 _____
23 _____

24 _____ **

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

1) Had Laclede chosen a ** _____

_____ **

2) ** _____

_____ **

3) ** _____

_____ **

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 ** _____

_____ ** 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

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

A. Yes, the way the studies have been constructed, ** _____

_____ ** but some much lesser amount that does not
reflect the current **

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 ** _____

**

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

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David M. Sommerer

1 A. No. Mr. Godat explains that LER ** _____

2 _____

3 _____

4 _____

5 _____

6 _____

7 _____

8 _____ **

9 Q. Does this conclude your surrebuttal testimony?

10 A. Yes.

SCHEDULE ONE HAS BEEN DEEMED
HIGHLY CONFIDENTIAL IN ITS ENTIRETY

SCHEDULE TWO HAS BEEN DEEMED
HIGHLY CONFIDENTIAL IN ITS ENTIRETY