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Witness: David M. Sommerer
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GR-2017-0216
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

PROCUREMENT ANALYSIS

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

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

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

*Jefferson City, Missouri
October, 2017*

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

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

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

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

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

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

17 **EXECUTIVE SUMMARY**

18 Q. What is the purpose of your rebuttal testimony?

19 A. My rebuttal testimony will rebut the Direct Testimony of Office of Public
20 Counsel (OPC) witness John S. Riley with regard to “consistent treatment of gas storage
21 inventory costs”. The Staff continues to support its recommendation in the Cost of Service
22 Report that gas inventories be included in rate base and that the carrying costs on those
23 inventories be included in “base rates” in the general rate case.

1 **GAS INVENTORY CARRYING COSTS**

2 Q Do you agree with Mr. Riley's contention on page 7, line 7, of his Direct
3 Testimony that "The carrying cost of maintaining gas storage is nothing more than a cost of
4 gas"?

5 A. No, not entirely. Perhaps a "carrying cost" might be a gas cost when viewed from
6 the perspective of the retail customer, where the entire gas bill might represent, from the
7 customer's point of view, a "gas cost". In other words, the customer might generally
8 characterize various utility bills as being for electric, gas, or water. From that high level, the
9 entire cost of service seems to be a gas cost. A carrying cost represents an amount of funds that
10 Spire Missouri, or any natural gas company for that matter, must use in order to acquire gas to
11 inject in the summer, prior to the time it recovers revenues for those injected volumes. Although
12 inventory carrying costs have been recovered through LAC's PGA clause for approximately 12
13 years, those costs were not recovered via a Gas Inventory Carrying Cost ("GICC") mechanism
14 before that time, and MGE's inventory carrying costs have never been the subject of a PGA
15 GICC recovery mechanism.

16 For purposes of a Stipulation and Agreement approved in Case No. GR-2005-0284,
17 special GICC tariffs were authorized in LAC's PGA clause. As proven by several disagreements
18 over the years as to what constitutes a "gas cost", the term "gas costs" itself is not precisely
19 defined in PGA tariffs. LAC and MGE tariffs provide examples of "gas costs". So the inclusion
20 of inventory "carrying costs" in the LAC PGA pursuant to a Stipulation and Agreement did not
21 establish them to be "gas costs".

22 As I stated in Staff's COS Report, only clear and identifiable "actual gas costs" should be
23 subject to PGA recovery. This means, with rare exceptions, only gas supply, transportation, and

1 storage, which are invoiced by a supplier and typically acquired upstream of the city-gate, should
2 be recovered through the PGA.

3 Q. What do you mean by “rare exceptions”?

4 A. Natural gas hedging costs would be a “gas cost” though perhaps not billed by a
5 “gas supplier”. In addition, there is a “carrying cost” that is meant to track under/over recoveries
6 in the ACA balances themselves as well as “carrying costs” associated with hedging. Carrying
7 costs on the under/over ACA balances go back to a time when Local Distribution Companies
8 (“LDCs”) agreed to greatly reduce the number of periodic PGA filings, and therefore
9 incorporated a symmetrical calculation where the LDC or the customer might actually be due
10 interest.

11 Q. Does this mean you disagree with Mr. Riley’s assertion on page 7, lines 12 and
12 13, of his Direct Testimony that “It cannot be reasonably argued that the cost of maintaining
13 natural gas inventories is not a natural gas cost”?

14 A. Yes, I disagree. There are many costs that are associated with “maintaining
15 natural gas inventories”. For example, any property tax associated with the inventory might be
16 viewed as necessary to maintain the inventory. Expenses related to reservoir studies provide
17 another example that could be argued to be connected to maintaining inventory. Any insurance
18 costs related to the inventory might be characterized as helping to maintain the inventory. Even
19 the salaries of those employees responsible for managing and operating the gas storage fields
20 might be argued to be necessary to “maintain” the inventories. However, none of these are
21 considered gas costs.

22 Q. Has OPC ever historically agreed with Staff’s position of including carrying costs
23 for gas inventories in rate base?

1 A. Yes, and for basically the same reasons that Staff is supporting it in this case. In
2 LAC Case No. GR-2002-356, OPC witness James A. Busch stated the following starting at page
3 5, lines 16 through 23, and continuing on page 6, lines 1 through 12

4 Carrying costs for gas inventory are as much a part of doing business as
5 are the pipes that Laclede uses to bring natural gas to its customers. As such,
6 Laclede is given the opportunity to earn a rate of return on the value of the storage
7 that it maintains. Moving these costs to the PGA clause does nothing but lower
8 Laclede's risk profile by guaranteeing recovery of carrying costs through the PGA
9 mechanism while increasing its rate of return. Further, adding this component to
10 the PGA clause will complicate the PGA/ACA process even further by adding
11 another component that will need to be audited on an annual basis. Also, if GICC
12 are added to the PGA mechanism, what other components may end up in the
13 PGA? Laclede has already filed in the past for uncollectibles to be added to the
14 PGA. Could Laclede attempt to put the salaries of its employees in the gas supply
15 function in the PGA? Now that the Laclede Group has formed Laclede Energy
16 Services, a new corporation that will provide gas supply services to the Company,
17 will Laclede attempt to add those costs to the PGA? Public Counsel does not
18 believe that these types of costs should be moved to the PGA clause and that the
19 appropriate manner for their recovery is in a rate case proceeding. ACA audits are
20 complicated enough right now to insure that the Company has only passed along
21 prudently incurred charges to its customers Adding layers of additional
22 information to "wade through" would unnecessarily increase that complexity.

23
24 Q. Based on your experience, do you have suggested guidelines to assist in
25 determining what a "gas cost" is that would typically be recoverable, subject to prudence review,
26 in the PGA?

27 A. As I stated above, a cost of gas would include gas supply, transportation, and
28 storage, which are invoiced by a supplier and typically acquired upstream of the city-gate.
29 Natural gas hedging costs would also be included in that definition. Any broad expansion of
30 those guidelines would likely lead to an ever-expanding inclusion of expenses that might be
31 indirectly but perhaps loosely connected to gas costs.

32 Q. What do you mean by an ever-expanding inclusion of expenses?

1 A. In the years subsequent to the GICC going into effect, after 2005, there were
2 various attempts to widen the array of cost items subject to PGA recovery. That included “Line
3 of Credit” (“LOC”) fees, gas migration mechanisms, and the “gas cost portion” of bad debts.
4 LOC fees were added to the PGA tariff in 2010. In addition, around that time, LAC began to
5 incorporate a type of “tracker” within a “tracker” to estimate migrating gas losses out of its
6 storage field. That practice was eventually removed pursuant to an ACA proceeding. On July 9,
7 2008, Laclede filed a proposal with the Commission asking the Commission to allow it to amend its
8 tariffs to use the purchased gas adjustment mechanism to recover the gas cost portion of its bad
9 debts. That proposal was ultimately rejected by the Commission.

10 Q. Please explain what you mean by “invoiced by a supplier” and why that is an
11 important qualification for costs which are to be recovered through the PGA/ACA process.

12 A. Gas costs that are invoiced by a supplier would have a third party supplier actually
13 providing a commodity or service and billing LAC and MGE for the commodity or service. For
14 example, an interstate pipeline bill MGE and LAC receive for transportation service is a gas cost that
15 is "invoiced by a supplier." That transaction results in a verifiable and auditable invoice. Gas
16 inventory carrying costs are not billed by a gas supplier but are calculated based upon various
17 assumptions, parameters, and guidelines such as what interest rates should the PGA tariff reference
18 and how should those rates be applied to inventory balances.

19 Q. Can you summarize Staff’s recommendation?

20 A. Yes. The preferred ratemaking treatment for gas inventory carrying costs in these
21 proceedings should be to include them in rate base. The expansion of costs recoverable under the
22 PGA can open that mechanism to further complexity and proposals to extend an automatic
23 adjustment clause that was never intended to do more than recover the actual cost of gas.

24 Q. Does this conclude your rebuttal testimony?

1

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

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

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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

Further the Affiant sayeth not.



DAVID M. SOMMERER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 13th day of October, 2017.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070



Notary Public