Exhibit No.:	
Issues:	*Storage Inventory*
	Off System Sales/Capacity Release;
Witness:	*David M. Sommerer*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*GR-2002-356*
Date Testimony Prepared:	*August 2, 2002*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2002-356

Jefferson City, Missouri
August 2002

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In The Matter of Laclede Gas Company's Tariff To Revise Natural Gas Rate Schedules	))	Case No. GR-2002-356

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

David M. Sommerer, being of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the following Rebuttal 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 1st day of August 2002.

Toni M Charlton

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

CASE NO. GR-2002-356

LACLEDE GAS COMPANY

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 who filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to rebut the direct testimony of Laclede Gas Company (Laclede, Company) witnesses Michael Cline and Patricia Krieger.

STORAGE INVENTORY

GAS INVENTORY CARRYING COSTS

Q. Mr. Cline states why the Company proposes to use the PGA clause to recover carrying costs on gas inventory on page 18, lines 17 through 22 and page 19, lines 1 and 2. Do you agree with that position?

A. No. The Staff disagrees with the Company's position for the following reasons:

- The Actual Cost Adjustment (ACA) process is already a complicated and lengthy process.
- Carrying costs on inventory is an extension of what originally started out to be a fairly straightforward definition of what expenditures constitute "gas costs".
- The traditional general rate case approach is a preferable method of cost recovery in this instance.
- It is the general practice of other Missouri LDCs to apply carrying cost in the context of a general rate case.

Q. Please explain what you mean by the statement that the ACA process is already a lengthy and complex process?

A. The ACA process includes a prudence review of the Company's purchasing practices. As history has proven, proposed prudence adjustments are often disputed and require a significant amount of time to litigate. Mechanisms, such as the Deferred Carrying Cost Balance (DCCB), and the price stabilization fund have resulted in fairly extensive subsets to the traditional ACA audit process. Often, when there are separate recovery components for these new features, proration and other miscellaneous accounting adjustments add to the basic review requirements of the audit. Finally, the interactions between affiliate transactions, off-system sales, and unique exchange agreements require extensive review. Although Mr. Cline's tariff description is somewhat abbreviated, this does not mean the underlying schedules and review will be simple. The DCCB process is an example of a situation where a fairly short tariff description of the procedure obscures how extensive the documentation and audit processes really are.

Q. How does the definition of gas costs relate to this issue?

A. The traditional view of gas costs subject to recovery in the Purchased Gas Adjustment (PGA) Clause includes the actual gas commodity itself, the interstate pipeline charges necessary to delivery the commodity to the city-gate, and storage costs incurred upstream of the city-gate. The city-gate refers to the point of delivery where natural gas is exchanged between the Local Distribution Company (LDC) and the interstate pipeline company. Storage costs that are incurred upstream of the city-gate include the costs of reserving storage space on the interstate pipeline before the gas is delivered to the LDC. Some exceptions, such as DCCB interest, have been made over time to expand the scope of costs that are considered subject to PGA recovery. However, the Staff does not support the continued expansion of the PGA mechanism and the attendant reduction in the cost elements that are considered under the traditional general rate case approach.

Q. Why is the traditional general rate case approach a preferable method of cost recovery with respect to the inventory carrying cost issue?

A. The appropriate place for recovery of inventory carrying costs is the traditional method of recovery through non-gas costs. The Company already recovers significant costs associated with its own storage field and propane cavern in non-gas rates. These costs are reviewed as part of the overall review in a general rate case. While it is true that the costs are unpredictable, that same statement could be made about many expenses the Company incurs. The general rate case approach gives Laclede the incentive to closely monitor and control costs. The normalized expense level that is associated with a particular cost item becomes a cap that the Company must manage. The risk under the general rate case approach is symmetrical in that the customer bears the risk that the cost will be lower than the level in rates while the Company bears the risk that the level in rates will be less that the cost. The PGA/ACA process is, in essence, a dollar for dollar pass-through of gas costs so that, in that process, the customer bears the greater risk. Those costs are subject to a prudence review, but as previously discussed, the prudence process has limitations.

Q. How do other Missouri LDCs treat carrying cost on natural gas inventory?

A. Missouri LDCs that have pipeline storage use the general rate case approach to incorporate carrying costs on natural gas inventory. This approach also recognizes that LDCs have some control over how much volatility will be experienced with summer injection prices. This comes about through some limited flexibility in varying storage injection rates and the ability to diversify the pricing of the summer gas purchases.

OFF-SYSTEM SALES AND CAPACITY RELEASE

Q. Please describe Laclede's filed position with regard to off-system sales and capacity release transactions?

A. The Company includes very little testimony with regard to its positions regarding off-system sales. On page 21, Company Witness Patricia Krieger discusses the adjustment the Company has made to its case for this issue. It is Staff's understanding of this testimony that the Company believes that approximately ** HC ** is representative of ongoing conditions. This amount is too low in Staff's opinion based upon historical data.

Q. Please explain.

A. Attached, as Schedule 1 is a summary of off-system sales and capacity release for the past 5 years. The absolute lowest combined level of these activities, when adjusted for on-going power plant margins, is approximately ** HC ** dollars. Laclede's proposed level is far below the lowest levels experienced historically. The Staff approach is a fair representation of what has readily been achievable by Laclede in recent history.

Q. Could you provide an illustration of the Staff's position?

A. Yes. Schedules 2 and 3 are graphs that illustrate historical capacity release and off-system sales levels respectively.

Q. What do the graphs show?

A. Capacity release has trended down but has stabilized at approximated ** HC **. Off-system sales on the other hand tends to fluctuate over a wide band and has been averaged by the Staff over 3 years to account for more recent history while recognizing that the margins for off-system sales fluctuate greatly. The Staff's three-year average of off-system sales is ** HC **.

Q. Did Laclede provide any additional support in their workpapers or testimony on the rationale or underlying support for their low level of off-system sales and capacity release?

A. No.

Q. Does Laclede have a financial incentive to support lower levels for off-system sales margins and capacity release for the purposes of setting rates?

A. Yes. The lower the levels that are set, the easier it is for Laclede to exceed the amounts. Every dollar in excess of the credits imputed in the ratecase benefits Laclede's shareholders.

Q. Does this conclude your rebuttal testimony?

A. Yes.