

Exhibit No.:
Witness: Scott E. Jaskowiak
Issue: Price Stabilization
Fund; Structure & Operation
Type of Exhibit: Direct Testimony
Sponsoring Party: Laclede Gas Company
Case No.: GO-98-484

DIRECT TESTIMONY
OF
SCOTT E. JASKOWIAK

FILED

JUL 2 1998

Missouri Public
Service Commission

LACLEDE GAS COMPANY

Case No. GO-98-484

St. Louis, Missouri

June, 1998

DIRECT TESTIMONY OF SCOTT E. JASKOWIAK

1 Q. What is your name and address?

2 A. My name is Scott E. Jaskowiak, and my business address
3 is 720 Olive Street, St. Louis, Missouri 63101.

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

5 A. I am employed by Laclede Gas Company ("Laclede"
6 or "Company") in the position of Manager of Gas Supply
7 Administration.

8 Q. Please describe your educational background and
9 experience.

10 A. In 1985, I graduated from the University of Missouri,
11 Rolla, with a degree in Chemical Engineering and from
12 St. Louis University in 1990 with a Masters degree in
13 Business Administration. I joined Laclede in June 1985
14 and have held various positions in the Engineering,
15 Facilities, and Construction and Maintenance departments
16 of the Company. In addition, I held the positions of
17 Assistant to the Senior Vice President, Operations, Gas
18 Supply and Technical Services and Senior Gas Supply
19 Administrator until my appointment to my present
20 position.

21 Q. Have you previously submitted testimony before this
22 Commission?

23 A. No, I have not.

PURPOSE OF TESTIMONY

1 Q. What is the purpose of your testimony?

2 A. In his direct testimony, Mr. Neises provides an overview
3 of Laclede's current price stabilization program ("PSP")
4 and discusses several of the major modifications which
5 Laclede proposes to make to the PSP. My testimony will
6 provide additional details on these and other proposed
7 revisions to the PSP. For the Commission's convenience,
8 I will refer to the revised program as the proposed
9 Incentive PSP. Please note that I have also included a
10 brief summary of the Incentive PSP in Schedule 1 to my
11 direct testimony.

12

13 STRUCTURE AND OPERATION OF THE INCENTIVE PSP

14 Q. Please discuss the overall objectives of the proposed
15 Incentive PSP.

16 A. As discussed by Laclede witness Neises, the basic
17 objective of the Incentive PSP is to ensure that
18 Laclede's customers receive the greatest amount of price
19 protection at the lowest possible cost by subjecting the
20 Company's efforts in this regard to a balanced set of
21 risks and rewards.

22 Q. Exactly how would the Incentive PSP work?

23 A. The Incentive PSP would require Laclede to obtain price
24 protection, in the form of natural gas **_____**

1 on **____** of its gas supply requirements assuming
2 normal weather, for the months of **_____
3 _____
4 _____
5 _____**. So long as Laclede ultimately
6 achieved these levels of coverage at some point during
7 **_____** for a
8 particular month could be traded on the New York
9 Mercantile Exchange ("NYMEX"), it would be permitted in
10 the interim to trade in and out **_____
11 _____** in response to changing market conditions.
12 It would also be permitted to purchase **_____** for
13 other months.

14 Q. How would the costs and benefits associated with such
15 activities be shared between the Company and its
16 ratepayers under the Incentive PSP?

17 A. At the outset, it is important to recognize that such
18 purchases under the Incentive PSP would cost ratepayers,
19 at the very most,**_____
20 _____
21 _____

22 _____**. This is about
23 the same amount that ratepayers paid for similar price
24 protection in the winter of 1997-98. But the Incentive
25 PSP would provide two opportunities for Laclede to

1 reduce this maximum potential cost for its ratepayers.

2 One opportunity would occur when Laclede **_____

3 _____
4 _____
5 _____**. The other would occur if Laclede
6 managed to hold the net cost of its acquisition of
7 **_____** allocated for that
8 purpose.

9 Q. Please explain how ratepayers may benefit under the
10 Incentive PSP when Laclede **_____

11 _____** it must hold during the **_____
12 _____** of the NYMEX trading period for each winter month.

13 A. Prior to each winter season, Laclede would calculate a
14 **_____** ("TSP") which would be
15 applicable to **_____** Laclede would purchase
16 for the next winter. The TSP for the winter would equal
17 the **_____

18 _____
19 _____
20 _____
21 _____
22 _____
23 _____
24 _____**. Laclede would also calculate a Catastrophic
25 Price Level ("CPL") for each month, which would consist
26 of the TSP plus \$.50 per MMBtu. Laclede would provide

1 the Commission Staff with its calculation of the TSP and
2 CPL on or before the April 1, immediately preceding the
3 winter to which they apply.

4 Q. Is it appropriate to use the NYMEX to calculate the TSP?

5 A. Absolutely. The financial instruments Laclede is
6 authorized to acquire under the PSP are NYMEX traded
7 instruments. The NYMEX is the largest market for energy
8 and metals trading, and derives its regulations from the
9 Commodity Futures Trading Commission, which is, in turn,
10 overseen by Congress. The exchange maintains absolute
11 neutrality toward the markets, as its rules apply to
12 both sides of a transaction. NYMEX does not trade
13 futures or options for its own account, does not take
14 positions in the market, and does not advise others on
15 what positions to take. NYMEX constantly monitors the
16 market and is truly the most qualified source to
17 determine the TSP.

18 Q. Why is the Company proposing to utilize **_____
19 _____** available during the month of **_____
20 _____** to calculate the TSP?

21 A. The Company believes the TSP should be based on **_____
22 _____** available during this period to provide the
23 Company with an adequate opportunity to trade in and out
24 of positions and to capitalize on the market's
25 volatility consistent with the program's objective of

1 increasing the level of protection and reducing overall
2 costs. Historically, **_____
3 _____**, which also supports using this time period.

4 Q. Is there anything significant about selling the
5 **_____
6 _____**?

7 A. Not really. This period is relatively close to the time
8 when the physical market is buying and selling most of
9 the supplies for the next month and there is usually a
10 corresponding relationship at this time between the
11 **_____**.

12 Accordingly, use of this limited time period should
13 improve the effectiveness of the financial hedge by
14 providing a lower probability that cash prices will
15 significantly change after the financial position is
16 liquidated.

17 Q. What happens when the **_____
18 _____
19 _____**?

20 A. When these **_____** are liquidated, Laclede may
21 realize a gain on the transaction **_____
22 _____**." The most the Company can lose is the
23 cost of the instrument itself.

24 Q. If such a gain is realized, how will it be shared
25 between Laclede and its ratepayers?

1 A. If the ** _____ **
2 is at or above the TSP, ratepayers will be allocated
3 100% of any gain which is realized. If the ** _____
4 _____ ** is below the TSP, the portion of
5 the gain which is attributable to the difference between
6 the ** _____ ** and the TSP will be shared equally
7 by Laclede and its ratepayers. The ratepayers will
8 still receive 100% of the portion of the gain
9 attributable to amounts above the TSP.

10 Q. Is the Company also at risk under this feature of the
11 incentive program?

12 A. Yes. As a general rule, in any case where the ** _____
13 _____ ** obtained by Laclede to provide the
14 required coverage exceeds the CPL, Laclede would provide
15 a credit to ratepayers. In those cases where Laclede
16 realizes a ** _____ **,
17 this credit would be 50% of the the difference between
18 the CPL and the ** _____ **. (As
19 stated previously, in such situations, ratepayers would
20 also receive 100% of the gain from the
21 ** _____ **, since the
22 ** _____ ** would be above the
23 TSP). In those cases where Laclede does not realize a
24 gain from the ** _____ **, the credit
25 to ratepayers would equal 50% of the difference between
26 the average of the NYMEX daily settlements for the last

1 three days of trading for that month's **_____** and
2 the CPL. However, the Company will not be obligated to
3 provide any such credit if, during the 90 days
4 immediately following the establishment of the TSP,
5 market conditions change radically and Laclede
6 determines it is necessary to purchase the **_____**
7 at **_____** above the CPL.

8 Q. Previously, you mentioned that the second feature of the
9 incentive mechanism would allow the Company to share
10 with its ratepayers any reductions in the authorized
11 **_____** of acquiring the prescribed price
12 protection. Would you please explain how this second
13 feature of the Incentive PSP would work?

14 A. This mechanism is quite simple. If the Company managed,
15 through **_____**
16 _____**, to reduce the overall cost of
17 acquiring the prescribed price protection below **_____**
18 _____** (the "Maximum Recovery
19 Amount" or "MRA"), it would be permitted to retain a
20 share of these savings.

21 Q. What share of the savings would the Company be permitted
22 to retain?

23 A. Under the proposed Incentive PSP, the Company would
24 receive 25% of the first **_____** in savings, 50%
25 of the next **_____** in savings, and 75% of any
26 savings thereafter.

1 Q. Why does the percentage of savings that the Company is
2 permitted to retain increase as the magnitude of the
3 savings increases?

4 A. This is simply designed to recognize the fact that the
5 last dollar in savings is almost always harder to
6 achieve than the first dollar in savings and that the
7 Company should therefore be given incentives which
8 reflect this reality.

9 Q. Is the Company at risk under this component of the
10 Incentive PSP?

11 A. Yes. If the Company must spend more than the MRA to
12 acquire the prescribed level of **_____,
13 then the Company is required to absorb 100% of the costs
14 above the MRA.

15 Q. Does the Incentive PSP contain other modifications?

16 A. Yes. The Incentive PSP would allow recovery of brokers'
17 commissions and transaction fees in addition to the
18 authorized **_____**. These fees are necessary and
19 unavoidable as long as financial instruments are
20 purchased and sold. They should therefore be
21 recoverable in addition to the authorized **_____**.

22 Q. Was Laclede charged brokers' commissions and transaction
23 fees in the first year under the PSP?

24 A. Yes.

25 Q. What was the total amount charged?

1 A. Under the first year of the PSP, Laclede paid brokers'
2 commissions and transaction fees totaling
3 **_____**.

4 Q. You also indicated that the Incentive PSP would require
5 Laclede to obtain price protection for **_____
6 _____
7 _____**. Why is this more specific condition being
8 added to the existing program's requirement that **_____
9 _____**

10 A. The months of **_____** are those months
11 when consumption by Laclede's customers is greatest.
12 They are also months which are prone to experience
13 extreme price spikes. The Incentive PSP therefore seeks
14 to ensure that an adequate level of financial protection
15 will be obtained during this period.

16 Q. Is Laclede proposing any revisions relating to the type
17 of financial instruments that may be used?

18 A. Yes. The Incentive PSP recognizes that there are other
19 conservative methods of managing price volatility in
20 addition to trading in and out of **_____**
21 positions. Under certain conditions, purchasing **_____
22 _____** would provide additional opportunities to
23 profit from a favorable move in market prices. The
24 Incentive PSP would accordingly authorize the Company to
25 purchase such instruments.

26 Q. Please explain why you believe the use of **_____

1 _____** represents a conservative method for managing
2 price volatility.

3 A. Just as a ** _____
4 _____
5 _____
6 _____
7 _____
8 _____**.

9 Q. Does this conclude your testimony?

10 A. Yes, it does.

11

SCHEDULE 1

Laclede Gas Company

Summary of Proposed Incentive Price Stabilization Program

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Tariff Sheets designed to extend for an)
additional year the experimental price)
stabilization fund.)

Case No. GO-98-484

A F F I D A V I T

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Scott E. Jaskowiak, of lawful age, being first duly sworn, deposes and states:

1. My name is Scott E. Jaskowiak. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager of Gas Supply Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, consisting of pages 1 to 11, inclusive.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, and the information contained in the schedule attached thereto, are true and correct to the best of my knowledge and belief.

Scott E. Jaskowiak
Scott E. Jaskowiak

Subscribed and sworn to before me this 2nd day of July, 1998.

Joyce L. Janson

JOYCE L. JANSON
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: July 2, 2001