

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's     )  
Purchased Gas Adjustment for 2009-2010    )     Case No. GR-2011-0055

**RESPONSE TO STAFF RECOMMENDATIONS**

COMES NOW Laclede Gas Company (hereinafter "Laclede" or "Company") and, pursuant to the Commission's November 13, 2012 procedural order in this case, submits its Response to Staff Recommendations. In support thereof, Laclede states as follows:

**I.     Introduction**

On November 1, 2012, the Staff of the Missouri Public Service Commission ("Staff") submitted its Memorandum and Recommendation ("Memorandum") in Case No. GR-2011-0055 for the Company's 2009-2010 Actual Cost Adjustment ("ACA") period. In its filing, the Staff makes a number of recommendations, together with some analysis and comment. This Response addresses only those items expressly recommended by the Staff and certain comments related thereto. It should be noted that Laclede does not necessarily agree with, or acquiesce in, other comments in the Memorandum not specifically addressed in this Response.

**II.    Response to Staff's Recommendations on Reliability and Gas Supply Analysis.**

**A.    Natural Gas Supply Request for Proposal (RFP) Process**

1.     Evaluation of Swing Supply Bid Pricing

On page 3 of its Memorandum, Staff states that Laclede's June 2009 RFP for gas supply requested bids for three types of swing supply: (i) Daily Pricing (GDD), (ii) First

of Month pricing (FOM), and (iii) Lower of GDD and FOM. Staff notes that Laclede only used two tables in its RFP bid analysis, one for GDD, and a second one that combined FOM and Lower of GDD and FOM. Staff recommends that when Laclede seeks three different types of swing bids in the future, that Laclede create three tables so as to evaluate each swing type separately.

Laclede agrees in general that each type of swing gas provision should be evaluated separately. In this case, however, the locations where we requested FOM swing bids were different from the locations where we requested bids for Lower of GDD and FOM. Since there was no overlap between these bid types, there was no particular need to create separate tables.

2. Evaluation of Swing Supply Bids with Multiple Delivery Locations

Staff notes that Laclede's RFP requested bids at eight locations. Laclede received bids at 10 locations – which included six of the eight locations requested, plus another four locations that were not on the RFP. Staff makes two recommendations: (i) that Laclede's RFP analysis tables indicate which locations are outside of the RFP request, and (ii) that Laclede evaluate whether unbid locations are necessary, and if so, take action to increase bids at those points.

With respect to the first recommendation, Laclede states that it is aware of which bid locations are outside of the RFP. However, if indicating this information in its bid summary tables is helpful to Staff in performing its audit, Laclede agrees to do so. With respect to the second recommendation, Laclede does in fact perform such an evaluation and agrees to continue to do so.

3. Low Bid Not Accepted





GC-2011-0098. Laclede will continue to work with Staff in that forum rather than also addressing each of these items in this docket.

### **III. Lange Underground Storage Non-Recoverable Gas**

On page 9 of its Memorandum, Staff notes that, beginning in November 2009, Laclede began recovering through its Current Purchased Gas Adjustment (“CPGA”) factor the cost associated with losses of gas from the operation of its underground aquifer storage field, known as Lange. Laclede believed that recovery of these storage gas losses through the PGA was appropriate since the Lange storage field is one of the resources used to meet the peak period gas requirements of Laclede’s customers. Laclede estimates that the costs it recovered from customers through the CPGA during the first year of implementation amounted to less than three-tenths of one percent (.3%) of Laclede’s annual gas costs, or approximately 12.5 cents per month for a typical residential customer.

Staff does not dispute the propriety of Laclede recovering such storage losses. However, Staff does dispute the timing and method of recovery, and Staff asserts a disallowance in the amount of nearly \$1.1 million based on such timing and method. Staff argues that because the purpose of the ACA is to reconcile actual gas costs, the ACA is not appropriate for recovery of estimated storage losses. Staff also argues that Laclede has historically recovered storage losses in its non-gas rates, and Laclede does not have tariff authority to recover storage losses in the ACA. Finally, Staff appears to claim that it is somehow inappropriate for Laclede to recover storage gas losses at this time, because Laclede recently began taking action to reduce such losses.

In response, Laclede would first note that the Lange storage field, like all similar geologic structures used to store gas, loses a small portion of its gas for various reasons, such as measurement errors or migration of gas to areas not in communication with the storage horizon. Such losses are commonly considered a cost of doing business of operating such structures which, over the long run, save consumers on average many millions of dollars each year in reduced gas supply costs. It is common practice for interstate natural gas pipelines that operate storage fields to recover such costs through specific storage fuel and loss trackers. In fact, Laclede and its customers are already paying for storage losses on over 90% of Laclede's storage gas, through the storage service Laclede purchases on the MRT pipeline. Under the PGA flow through Laclede implemented in November 2009, Laclede is simply conforming the recovery of the cost of its own storage field losses to the same type of recovery that is used for MRT storage gas.

In its last rate case, Laclede received the right to recover nearly 30 years of storage losses. Rather than allow this balance to build up again to unwieldy proportions, Laclede believes that it is far superior to collect much smaller amounts on a more contemporary basis. From the standpoint of inter-generational equity, the costs of current storage losses should be borne by current customers rather than future customers.

With respect to the argument that the storage losses are estimated vs. actual, Laclede and Staff share a good deal of common ground. Laclede wishes to inform the Commission that the Company has retained the services of a well-respected engineering firm and intends to have that firm prepare a very thorough and sophisticated model of the losses occurring in Laclede's storage field every two years. Laclede's intention, similar

to how most costs are treated in the PGA process, was to maintain the estimated losses in the part of the PGA used for estimates (i.e., the CPGA) until such time as they could be true-up, in this instance through the bi-annual study. In other words, Laclede agrees with Staff that a true-up is not necessary or appropriate until such a study is completed. Given the planned two-year time horizon for studying storage losses, there is no need for an ACA review of these costs at this time. Doing so is akin to trying to cancel a football game at halftime because the game isn't final and thus can't be counted in the standings. Laclede is not trying to permanently change the standings based on the halftime score, so there is no need for Staff to cancel the game at the half. Rather than disallow these costs in this case, Laclede requests that Staff permit the game to proceed to a conclusion.

Regarding tariff authority, the following sections of Laclede's CPGA clause suggest that recovery of the cost of storage losses is appropriate:

Sheet No. 15- The cost of purchased gas shall include but not be limited to all charges incurred for gas supply, pipeline transmission and gathering and contract storage.

Sheet No. 16-a- The current average commodity-related cost per therm shall reflect the known cost of all of the Company's gas supply resources at the time of the PGA filing

Sheet No. 17- The current average commodity-related cost per therm must reflect -- in addition to the costs of current purchased gas supplies -- costs or cost reductions at the time of such filing, that are expected to be realized, related to storage withdrawals,...

Finally, Laclede respectfully disagrees with the Staff that the Company's cost recovery is premature and somehow should be synchronized with when it began implementation of the NITEC report recommendations. The only bearing that the

NITEC recommendation has on storage losses is how to minimize such losses. It has nothing to do with cost recovery.

#### **IV. AFFILIATE TRANSACTIONS AND FAIR MARKET VALUE**

In this section, Staff recommends holding open this ACA case open pending resolution of the LER discovery dispute from earlier ACA cases. The “LER discovery dispute” referred to by the Staff arose from Staff’s request for proprietary LER documents intended to establish the margins earned by LER on gas supply transactions with Laclede. For more than a year, Laclede has been working with the Staff to resolve this and other issues relating to the standards that should be used to price affiliate transactions. Over that time, the Commission has offered additional guidance on this matter, clearly stating that a fair market pricing standard, rather than the margins made by an affiliate, is the relevant consideration for determining whether an affiliate transaction has been properly priced.<sup>1</sup> Accordingly, Laclede would, at this point, like to resolve these affiliate transactions issues based on the fair market standard that the Commission has firmly endorsed. As discussed in Section II.A.4 above, Laclede is working with Staff to develop standards of conduct in this area and looks forward to a successful conclusion of those discussions.

On page 12 of its Memorandum, Staff repeats a previous complaint that Laclede allows marketers to nominate supplies at less expensive city gates, and suggest that this may reduce the amount of cheaper supply available to sales customers. Laclede repeats its response that the Company is accommodating requests by its transportation customers to deliver gas to their chosen location. Such an accommodation has no impact on

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<sup>1</sup> See the Commission’s decisions in two Atmos ACA Cases (Case Nos. GR-2008-0364 and 2009-0417) and the opinion of the Western District Court of Appeals (WD74714, Opinion filed September 18, 2012) upholding the Commission’s decision.



Laclede, either financially or operationally. In addition, Laclede questions its authority to control where customers ship gas on the wholesale market, especially when there are no operational limitations.

**V. MISSOURI PIPELINE COMPANY OVERCHARGES**

Staff recommends that the 2009-2010 ACA case be held open to monitor Laclede’s actions with regards to pursuing refunds from MoGas (f/k/a Missouri Pipeline). The Company disagrees that the instant case should be held open for such purpose and finds Staff’s recommendation in this regard singularly unfair.

On August 28, 2007, the Commission issued its initial Report and Order in Case No. GC-2006-0491, which was later revised on October 11, 2007 (the “Order”). The Order found that MoGas’ tariff operated to lower the firm reservation rate it could charge non-affiliates such as Laclede.

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Meanwhile, MoGas appealed the Order, but on April 22, 2010, the Western District Court of Appeals issued its mandate in favor of the Commission, rendering the Order final and unappealable. In its recommendation in Laclede's 2008-09 ACA case, Case No. GR-2010-0138, Staff noted that the Order had become final, and that finality had occurred within the 2009-2010 ACA Period. The Staff stated that it "expects Laclede to take action to ensure its customers pay only the authorized maximum MPC transportation rates."

Laclede agreed with Staff that the time had come for it to take action. On March 11, 2011, Laclede sued MoGas in St. Charles County Circuit Court for more than \$6.5 million in damages plus statutory interest. On September 6, 2012, the Court awarded judgment to Laclede in the full amount. Laclede is currently working diligently with MoGas to try and arrange a resolution of the dispute.

Laclede reserved its right to a refund, and at the same time kept the gas flowing for the benefit of its customers. The judge in the St. Charles County Circuit Court stated that "[Laclede's] September 20, 2007 letter was sufficient in the circumstances to timely apprise MoGas of Laclede's claims. For Laclede to demand immediate payment from MoGas would have been a useless act, and the law does not require a useless act."

When the Staff stated that it expected Laclede to take action, not only did Laclede take action but did so successfully. Laclede recognizes that its actions going forward may be subject to scrutiny, but it seeks and deserves a clean bill of health for the actions it has taken to date. In its December 30, 2010 recommendation in Case No. GR-2010-0138, Staff suggested that Laclede could be subject to a disallowance because Laclede should have refused to pay to MoGas "the overcharged amount" after the Order was

issued. While this language does not appear in Staff's recommendation in this case, Laclede seeks clarification from the Staff that the purpose of keeping the ACA case open is not to penalize Laclede for any refunds owed to customers based on payments made to MoGas under protest after the date of the Order.

## **VI. HEDGING**

Beginning on page 14 of its Memorandum, Staff addresses the subject of hedging, breaking its comments into four sections.

### **A. Limited or Partial Hedging**

Staff is concerned that partial hedges could expose Laclede and its customers to unlimited upside price risk. Laclede and its customers are always exposed to unlimited price risk to the extent of gas purchases that aren't subject to a hedge. A complete hedge tends to be more expensive for customers but gives complete protection according to its terms. A partial hedge tends to be less expensive and correspondingly provides less than complete protection, according to its terms. Together, the complete and partial hedges provide a desired level of protection and provide for greater diversity of pricing in Laclede's portfolio. In addition, even though partial hedges were more prevalent in the subject ACA period compared to previous years, such outcome is indicative of the Company's on-going assessment of gas market conditions at the time such hedges were implemented.

### **B. Time and Price Driven Hedging**

See Laclede's response to Sections VI. A and D.

### **C. Hedge Documentation**

Laclede intends to continue to supply the Staff with detailed documentation that sets forth the various types of instruments it uses and under what conditions, along with an association of each hedging transaction with such documentation and an identification of whether each hedge is time driven or price driven. Also, Laclede has explained to Staff multiple times how and why the Company handles its futures positions so that it obtains the actual final NYMEX settlement price each month. The Commission should be informed that, going back to 2005 and as recently as last month, Laclede has addressed this topic, and addressed it comprehensively, for the Staff.

**D. Performance Evaluation of Hedge Program**

Consistent with the Company's response in Section VI.A above, and as evidenced by the Company's periodic revisions to its underlying risk management strategy, including Laclede's decision in late 2008 to suspend the placement of further price-driven hedges, Laclede regularly reviews and evaluates its hedging program in deciding whether to make changes that may improve the program. Also, Laclede has considered the OTC market to be, among other things, less transparent and more risky than the established futures market, and less suited for LDC's that purchase a relatively low amount of baseload gas.

**WHEREFORE**, for the foregoing reasons, Laclede respectfully requests that the Commission accept this Response.

Respectfully submitted,

**/s/ Michael C. Pendergast**

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**CERTIFICATE OF SERVICE**

I hereby certify that the foregoing pleading has been duly served upon the General Counsel of the Staff of the Public Service Commission and the Office of the Public Counsel by hand delivery, email, fax, or United States mail, postage prepaid, on this 14th day of January, 2013.

**/s/ Rick Zucker**  
Rick Zucker