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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's PGA Filing	))	**Case No. GR-2014-0231**

RESPONSE TO STAFF RECOMMENDATIONS

COMES NOW Laclede Gas Company (hereinafter "Laclede" or "Company") and, pursuant to the Commission's January 4, 2016 order in this case, submits its Response to Staff Recommendations. In support thereof, Laclede states as follows:

I. Introduction

Following the end of the 2013-2014 Actual Cost Adjustment ("ACA") Period, the Staff of the Missouri Public Service Commission ("Staff") performed its audit and on December 19, 2015, submitted its Recommendation and Memorandum in this case. In its filing, the Staff did not assert any disallowances, but made several recommendations, along with other comments and observations. This Response addresses only the material 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. RFP Process

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B. Competitive Bidding for Short Term Supply

Staff raised four examples of short-term purchases of gas supply that Staff alleged were not supported with sufficient documentation under the Gas Supply Standards of Conduct. Laclede would first note that none of these deals were affiliate transactions, so the Company had no incentive to pay any of these suppliers more than a fair market price for their gas. In addition, three of the four examples occurred during the unusually and severely cold winter of 2013-14, when location and reliability, rather than price, became primary drivers.

Laclede appreciates Staff's consideration of Laclede's opinion that the standards need to be modified to fit actual practices, and appreciates Staff's invitation to propose revisions to the Gas Supply Standards of Conduct. Laclede intends to propose revisions and intends to send Staff a draft by April 29.

C. Gas Supply Reservation (Supply Demand) Charges

Laclede pays higher demand charges on some of its volumes for the right to buy gas at the lower of the first-of-month (FOM) price or the daily price. The lower of FOM or daily option protects customers against intra-month price spikes, allowing the Company to pay a less expensive FOM price at a time when cold weather might drive up the price of daily gas. This intra-month insurance is most valuable during periods of market volatility. During periods of low volatility, the advantage of this insurance decreases and, as the market dictates, the cost of the demand charges, or insurance premiums, also decrease. In recent years, decreased volatility in the price of gas has reduced both the cost and value of this insurance. As can be seen in the chart in Staff's Recommendation on this issue, amounts spent on demand charges have fallen from $9 miilion in 2008/09 to $1.7 million in 2013-14. However, the return of volatility in the cold winter of 2013-14 led to an insurance payoff of $3.2 million, an amount that in one winter roughly covered net losses from this insurance for the preceding three years.

In its recommendation in this case, Staff seeks an explanantion of the limits placed on these "Lower of" volumes by Laclede. In response, Laclede states that after Staff asserted a disallowance pertaining to FOM pricing for swing supplies more than 10 years ago, Laclede significantly reduced the volume of swing gas potentially covered by such pricing . In recent years, Laclede has been relatively consistent in reserving 80,000 dth per day in "lower of" volumes, and is regularly assessing the value of this tool.

D. Recent Cold Weather Data Available for Demand/Capacity Analysis

Staff recommends that Laclede use data from the cold winter of 2013-14 in updating its analysis for peak day planning. As Laclede stated in its response to Staff's Recommendation in MGE's ACA case, Laclede is working to update its peak day capacity analysis for both Laclede and MGE and intends to have it completed by September 1, 2016. Laclede agrees to utilitze data from the cold winter of 2013-14 in its updated analyses.

E. Laclede Planning Documents

1. Design Simulation of 1935-36 Winter

Staff noted discrepancies in the amounts of storage withdrawals in Laclede's design simulation. Laclede agrees that it erred in these design simulations due to mistakes in applying the revised limits in the new Enable-MRT storage contracts. Laclede has made the necessary adjustments to eliminate the error.

2. Original 2013-14 Reliability Report

This comment is duplicative of the comment in E1 above. As Staff notes, the error was rectified and Laclede submitted a revised reliability report.

3. Revised 2013-14 Reliability Report

The Staff alleges a flaw in Laclede's design simulation, because the Company does not exhaust all of its gas supply resources, since it still has more than its share of gas in MRT storage at the end of April. In response, Laclede states that the focus of its 1935-36 design simulation is whether Laclede would have sufficient gas supplies to maintain service during a late winter, i.e. mid- February, cold snap. The remaining months in the analysis are not critical and the sources of supply shown for those months are not necessarily indicative of how Laclede would meet customers' gas supply needs. If the Company found that it had more than expected storage as April approached, it would take steps to avoid an end of storage season imbalance by either turning back other gas, or making off-system sales.

4. <u>Withdrawals from Lange Storage Exceeded Lange Deliverability</u>

Staff opined that Laclede's design simulation showed planned withdrawals on two days, February 17 and 19, that exceeded the deliverability limits of its Lange storage facility. In response, Laclede believes that Staff is mistaken on this point. The amount of gas that can be withdrawn from Lange on a given day is a function of cumulative withdrawals through the previous day and does not consider withdrawals on the day in question as apparently assumed by Staff.

5. <u>Additional Recommendations Regarding Planning Documents</u>

The additional recommendations are largely repetitive of earlier recommendations regarding the revised MRT tariffs and utilization of cold temperatures from the 2013-14 winter in its sendout equation. As stated above, Laclede will update for the revised MRT tariffs and rules, and intends to incorporate 2013-14 winter data in its peak day analyses.

F. Large Volume Transportation and Sales Service Customers

2. Staff's Concerns Related to Contract Demand and Daily Scheduled Quantities

On or about page 19 of its Recommendation, the Staff expresses two concerns regarding the contract billing demands and daily scheduled quantities ("DSQs") of the Company's Large Volume Sales and Transportation ("LVTSS") customers. First, the Staff is critical of the transportation contracts that the Company provided to the Staff for certain customers in which the contract demands stated in the contract did not agree with the contract demands that were used for billing and for determining overruns in the Company's Transportation Group Estimated Consumption Report. Unfortunately, in response to a Staff data request, the Company provided the Staff with copies of the Company's then-existing contracts with customers that reflected a level of contract demands which in some instances were different from those that were in effect during the subject ACA period. Short of the Staff seeking clarification during a future audit when it observes such a discrepancy, the Company will make sure to match future contracts to the applicable ACA period.

Second, the Staff noted "instances [during the cold weather the Company experienced in February 2014] where a transportation service customer's daily usage exceeded its contracted for billing demand." Staff is concerned about a potential negative cost consequence for sales customers[1] that could result if it would be necessary for Laclede to purchase expensive spot gas in order to make up for a daily shortfall in gas purchased by such transportation customers. Accordingly, the Staff proposed some possible criteria to use in setting higher billing demands for customers and suggested that adoption of such criteria be considered in a future rate case.

[1] Recommendation at p. 18

In response, Laclede notes that while there are a number of other factors that should be considered in assessing whether and when higher billing demands should be set for its transportation customers, it agrees that this issue should be reassessed in the Company's next rate case or other appropriate proceeding. The Company will also re-evaluate its criteria for instituting a period of limitation that, in turn, can impact the establishment of higher billing demands

IV. <u>Affiliate Exchanges</u>

During the 2013-14 ACA Period, Laclede earned substantial revenues for its customers through exchange transactions with its affiliate, Laclede Energy Resources (LER). LER developed the exchange program and proposed it to Laclede with beneficial terms for the utility. No other marketing company proposed or offered these kind of transactions to Laclede.

Staff recommends that if Laclede intends to continue exchange transactions with marketers, that the Company contact other parties in addition to LER. Laclede has agreed to do so, and has in fact done some exchange transactions with a non-affiliate marketer.

V. <u>Hedging</u>

A. Time and Price-Driven Hedging

Staff recommends that Laclede continue to evaluate the timing of hedge purchases to avoid concentrated placement of hedges in the potentially high cost months just prior to the winter gas flow. Laclede does evaluate the timing of hedges in its risk management policy, and agrees that it will continue to do so.

B. Evaluation of Hedge Program

Staff recommends that the Company evaluate its hedging strategy in response to changing market dynamics. Staff further suggests that Laclede evaluate both its strategy of hedging summer storage injections, and its practice of hedging with financial instruments traded on the New York Mercantile Exchange (“NYMEX”) rather than over-the-counter instruments. Further, Staff recommends the Company assess the effectiveness of its hedges based on the outcomes. Finally, Staff repeats its suggestion from the previous ACA Recommendation that Laclede incorporate its “Lower of FOM or Daily Index” into its Risk Management Program, as a hedge against intra-month price spikes.

In response, Laclede first states that it agrees with Staff regarding the monitoring of market dynamics. The Company continually evaluates market circumstances in order to balance the cost of hedging against the goal of price stabilization, and thus achieve a cost-effective hedging outcome. Laclede adds that, after considering the types of instruments available for hedging, and the relative benefits of taking a consistent approach between Laclede and MGE, it has adopted the use of NYMEX financial instruments for both Laclede and MGE, rather than over-the-counter instruments, which involve more counterparty risk.

Further, Laclede states that it is constantly evaluating its hedging strategy and tracking its effectiveness. Finally, as suggested by Staff, Laclede confirms that it has incorporated its “Lower of FOM or Daily Index” into its Risk Management Program, as a hedge against intra-month price spikes.

Conclusion

Laclede offers one very minor note to the Staff's recommended ACA Balances. ation. The Basic Transportation column reflects a credit, or negative balance of ($519). It should instead be a debit, or positive balance, of $519.

WHEREFORE, Laclede respectfully submits that, based on these responses to Staff's comments, concerns and recommendations, there are no issues presented that require either a procedural schedule or resolution by the Commission. Accordingly, Laclede requests that the Commission issue its Order adopting the ACA balances recommended by Staff in its Recommendation, except for the revision to the Basic Transportation balance from (-$519) to +$519.

Respectfully submitted,

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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 16th day of February, 2016.

/s/ Marcia Spangler
Marcia Spangler