

**MEMORANDUM**

TO: Missouri Public Service Commission Official Case File,  
Case No. GR-2014-0231 – Laclede Gas Company

FROM: Anne M. Crowe, Regulatory Auditor - Procurement Analysis  
Lesa A. Jenkins, PE, Regulatory Engineer - Procurement Analysis  
Kathleen A. McNelis, PE, Regulatory Engineer – Procurement Analysis  
Kwang Y. Choe, PhD., Regulatory Economist - Procurement Analysis

/s/ David M. Sommerer 02/26/16  
Project Coordinator/ Date

/s/ Jeffrey A. Keevil 02/26/16  
Staff Counsel's Office/ Date

/s/ Lesa A. Jenkins PE, 02/26/16  
Utility Regulatory Engineer II/ Date

SUBJECT: Staff's Reply in Case GR-2014-0231, Laclede Gas Company's 2013-2014 Actual  
Cost Adjustment Filing

DATE: February 26, 2016

Procurement Analysis Staff ("Staff") has reviewed Laclede Gas Company's ("Company", "Laclede", or "LGC") Response to Staff Recommendations in Case No. GR-2014-0231 for the 2013-2014 Actual Cost Adjustment (ACA) filing. Laclede filed its response February 16, 2016.

Staff does not agree with all statements made in Laclede's response and has concerns with certain aspects of Laclede's responses related to Reliability and Gas Supply Analysis, Section II, of the Staff Recommendation. Some of these concerns and the actions requested of the Commission are discussed further in the Reliability and Gas Supply Analysis section below. Lack of Staff comments pertaining to other areas of the Laclede response should not be taken as agreement with Laclede's response.

Staff accepts Laclede's clarification of the ACA account balance. Staff recommends the Commission issue an order establishing the ACA account balance shown in the table below to reflect the under or (over)-recovery balance as of September 30, 2014. An over-recovery is the amount owed to the customers by the Company and is shown in the table as a negative number. An under-recovery is an amount owed to the Company by the customers and is shown in the table as a positive number.

**NP**

	Firm Sales non-LVTSS	Firm Sales LVTSS	Interruptible Sales	LP Sales	Firm Transportation	Basic Transportation	Vehicular Fuel
ACA Balance per Filing	\$ 16,149,759	\$ 541,961	\$ 227,086	\$ 43,112	\$ (500,249)	\$ 519	\$ 146,245
Staff Adjustments	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Staff Recommended ACA Balance</b>	\$ 16,149,759	\$ 541,961	\$ 227,086	\$ 43,112	\$ (500,249)	\$ 519	\$ 146,245

**RELIABILITY AND GAS SUPPLY ANALYSIS**

The Staff ACA Recommendation referred to documentation requirements for solicitation and awards of contracts included in Laclede’s Gas Supply and Transportation Standards of Conduct.<sup>1</sup> Laclede agreed to implement all of the provisions of the Standards of Conduct within 10 days after the effective date of the Commission’s Order approving the Unanimous Partial Stipulation and Agreement in GC-2011-0098. The Order approving the stipulation and agreement was effective 8/24/2013.

Staff provides a reply to the following aspects of Laclede’s responses related to Reliability and Gas Supply Analysis of the Staff Recommendation.

**RFP Process – Selective Negotiations versus Competitive Bid Process**

Staff referred to the requirements of the Gas Supply and Transportation Standards of Conduct pertaining to a competitive bidding process and exceptions to the competitive bid and award process. Part A.4 of that document requires that for phone calls or texts, Laclede shall maintain contemporaneous logs documenting the discussions and decisions. Staff recommended that the Company maintain a contemporaneous log of phone negotiations and provide copies of such documentation in support of its award decisions.

In its response Laclede states:

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<sup>1</sup> The Gas Supply and Transportation Standards of Conduct is Appendix 2 of the Unanimous Partial Stipulation and Agreement for GC-2011-0098. Complaint case GC-2011-0098 was filed October 6, 2010 by Staff, asserting that Laclede had violated the Commission’s affiliate transaction rules (4 CSR 240-40.015 and 4 CSR 240-40.016). The Gas Supply and Transportation Standards of Conduct were included as Appendix 2 to the Unanimous Partial Stipulation and Agreement to address Staff’s and OPC’s concerns regarding how the purchase and sale of gas and transportation capacity between Laclede and its affiliates should be conducted and priced.



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\_\_\_\_\_ \*\* As stated  
in the Staff Recommendation, Staff will evaluate the gas supply competitive bid process for the 2014/2015 ACA period for documentation of exceptions to the competitive bid process in the Gas Supply and Transportation Standards of Conduct.

**Competitive Bidding for Short Term Supply**

Staff referred to the requirements of the Gas Supply and Transportation Standards of Conduct, Section B, pertaining to short term purchases of gas supply (one month or less). Staff noted examples of where the Company did not meet the documentation requirements of the Standards of Conduct for short-term supply.

Laclede’s response states that for the four examples provided by Staff, none were with an affiliate and the Company had no incentive to pay any of these suppliers more than a fair market price for their gas. A stated intent in the Gas Supply and Transportation Standards of Conduct, approved by Commission Order in GC-2011-0098 is “to gain the broadest practical participation by eligible suppliers in submitting competitive supply bids for the supply location(s) where Laclede purchases gas”. The Unanimous Partial Stipulation and Agreement in GC-2011-0098 stated that “Among other things, these recommended Standards of Conduct: . . .(b) Require that all short-term (one-month or less) purchases of gas by Laclede *from any supplier*, including an affiliate, be done through a competitive bid and award process, except for emergency short-term purchases.” (emphasis added) It is Staff’s opinion that the requirements for competitive bidding

of short term supply contained in the Gas Supply and Transportation Standards of Conduct, including the documentation provisions, are not limited to gas supply with an affiliate.<sup>2</sup>

Laclede's response further states:

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.

The Company may propose revisions to the Standards of Conduct either directly to the Commission or by first submitting such revisions for Staff and The Office of the Public Counsel ("OPC") to review (as Staff offered in the Staff Recommendation) and then making a filing with the Commission. Either way, until the Commission grants approval of such revisions, variances or waivers, the Company must comply with the requirements of the existing Standards of Conduct. Staff has no authority to grant waivers or variances from Commission orders. The Company has not filed for a variance or a waiver from the Commission's order pertaining to the Gas Supply and Transportation Standards of Conduct. Until a revision, variance or waiver is approved, the Company must comply with the Gas Supply and Transportation Standards of Conduct approved in Commission Orders.

### **Recent Cold Weather Data Available for Demand/Capacity Analysis**

Staff referred to the Commission's Order Approving Unanimous Stipulation and Agreement (S&A) for the Laclede Group and Laclede Gas acquisition of Missouri Gas Energy (MGE) from Southern Union that was issued 7/17/13 and effective 7/31/13 in GM-2013-0254. The S&A required Laclede to formally conduct a comprehensive evaluation of pipeline transportation capacity and storage capacity (Demand/Capacity Analysis) no less frequently than every three years and to submit the analysis to Staff, OPC, and other interested parties.

Staff's recommendation stated:

Although Laclede provided a 2013/2014 Demand/Capacity Analysis, it uses the same regression data as the previous three analyses for 2012/2013, 2011/2012 and 2010/2011. Laclede conducted a regression of actual distribution data for 1/1/2010 – 2/28/2010. Each winter month of 2013/2014 was colder than normal and that data would have been available for planning for the 2014/2015 ACA period. Because of the availability of usage data for a cold winter, Staff expects

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<sup>2</sup> The Gas Supply and Transportation Standards of Conduct were included as Appendix 2 to the Unanimous Partial Stipulation and Agreement for the following cases: GC-2011-0098, GR-2005-0203, GR-2006-0288, GR-2008-0140, GR-2008-0387, GR-2010-0138, GR-2011-0055, and GR-2012-0133. The Order approving the stipulation and agreement was effective 8/24/2013.

to see Laclede's update for its regression analysis for its 2014/2015 winter peak day planning.

Laclede's response states it is working to update its peak day capacity analysis for both Laclede and MGE and intends to have it completed by September 1, 2016. The Company agrees to utilize data from the cold winter of 2013/2014 in its updated analysis.

Laclede does not comment on whether it updated the Demand/Capacity Analysis using the 2013/2014 winter data prior to the analysis it intends to have completed by September 1, 2016.

The S&A states the evaluation of pipeline transportation capacity and storage capacity (Demand/Capacity Analysis) shall be conducted no less frequently than every three years. It does not require the Company to wait three years to update its analysis. Each winter month of 2013/2014 was colder than normal and analysis of that cold winter data would have provided the Company with critical information about any changes in capacity it would need for a peak day for Laclede. Reasonable Company planning would recognize the need to analyze the cold weather usage data from 2013/2014 so that the analysis results would be available for its planning for the 2014/2015.

### **Hedging**

Staff accepts Laclede's response to Staff's recommendations related to hedging. But Staff points out that Laclede states in its response, "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." Staff recommends Laclede continue to evaluate the use of NYMEX financial instruments, since there could be potential benefits from combinations of NYMEX financial instruments and over-the-counter instruments rather than a "one-over-the-other" approach. However, no Commission action is requested by Staff on this item. Staff will continue to monitor.

### **CONCLUSION**

The Staff recommends that the Commission issue an order establishing the ACA account balance shown in the table above to reflect the under or (over)-recovery balance as of September 30, 2014, and closing the case.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's ) Case No. GR-2014-0231  
Purchased Gas Adjustment (PGA) Tariff Filing )  
)  
In the Matter of Laclede Gas Company's ) Case No. GR-2015-0110  
Purchased Gas Adjustment (PGA) Tariff Filing ) (consolidated)

**AFFIDAVIT OF KWANG Y. CHOE, PhD**

STATE OF MISSOURI )  
) ss.  
COUNTY OF COLE )

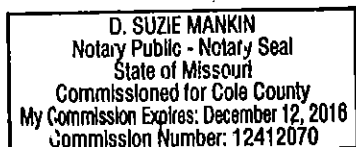
**COMES NOW** KWANG Y. CHOE, PhD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Staff Reply in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

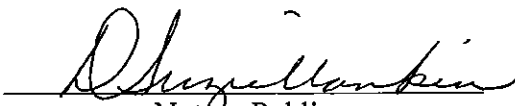
Further the Affiant sayeth not.

  
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KWANG Y. CHOE, PhD

**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 25<sup>th</sup> day of February, 2016.



  
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Notary Public

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

In the Matter of Laclede Gas Company's	)	Case No. GR-2014-0231
Purchased Gas Adjustment (PGA) Tariff Filing	)	
	)	
In the Matter of Laclede Gas Company's	)	Case No. GR-2015-0110
Purchased Gas Adjustment (PGA) Tariff Filing	)	(consolidated)

**AFFIDAVIT OF ANNE M. CROWE**

STATE OF MISSOURI     )  
  )  
  )     ss.  
COUNTY OF COLE     )

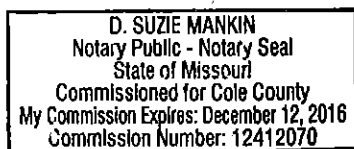
**COMES NOW** Anne M. Crowe and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Reply in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

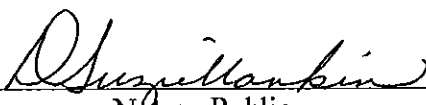
Further the Affiant sayeth not.

  
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ANNE M. CROWE

**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 25<sup>th</sup> day of February, 2016.



  
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Notary Public

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**OF THE STATE OF MISSOURI**

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**AFFIDAVIT OF LESA A. JENKINS, PE**

STATE OF MISSOURI )  
) ss.  
COUNTY OF COLE )

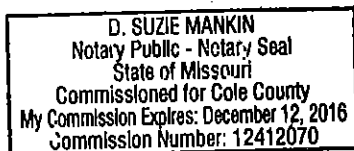
**COMES NOW** Lesa A. Jenkins, PE and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Reply in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

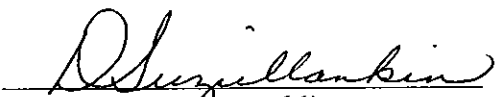
Further the Affiant sayeth not.

  
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LESA A. JENKINS, PE

**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 26<sup>th</sup> day of February, 2016.



  
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Notary Public



**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

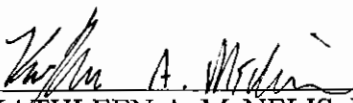
In the Matter of Laclede Gas Company's ) Case No. GR-2014-0231  
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Purchased Gas Adjustment (PGA) Tariff Filing ) (consolidated)

**AFFIDAVIT OF KATHLEEN A. McNELIS, PE**

STATE OF MISSOURI )  
) ss.  
COUNTY OF COLE )

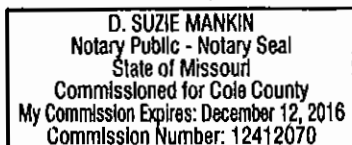
**COMES NOW** Kathleen A. McNelis, PE and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Reply in Memorandum form; and that the same is true and correct according to her best knowledge and belief.


Further the Affiant sayeth not.

  
KATHLEEN A. McNELIS, PE

**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 25<sup>th</sup> day of February, 2016.



  
Notary Public