

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2011-0055, Laclede Gas Company

FROM: David Sommerer, Manager - Procurement Analysis
Anne Crowe, Regulatory Auditor - Procurement Analysis
Lesia Jenkins, P.E., Regulatory Engineer - Procurement Analysis

/s/ David M. Sommerer 1/23/13
Project Coordinator / Date

/s/ Jeffrey A. Keevil 1/23/13
Staff Counsel / Date

SUBJECT: Staff's Response to Laclede Response to Staff Recommendation in Case
No. GR-2011-0055, Laclede Gas Company's 2009-2010 Actual Cost
Adjustment Filing

DATE: January 23, 2013

Procurement Analysis (Staff) has reviewed Laclede Gas Company's (Company or Laclede or LGC) January 14, 2013 response to Staff's Recommendation in the 2009-2010 Actual Cost Adjustment (ACA) filing, GR-2011-0055. This response primarily addresses those areas where the parties disagree to the extent comments are necessary or where clarification is required. Comments are provided for: Reliability and Gas Supply Analysis; Natural Gas Supply Request for Proposal (RFP) Process; Lange Underground Storage Non-Recoverable Gas; and Missouri Pipeline Company Overcharges. However, silence on a particular issue does not necessarily mean agreement.

Reliability and Gas Supply Analysis; Natural Gas Supply Request for Proposal (RFP) Process

1. Evaluation of Swing Supply Bid Pricing
Staff recommended:

To assure an effective RFP process, Staff recommends when the RFP has provisions for three (3) different types of swing agreements, Laclede should have separate tables in its evaluation process summarizing the bids for each type of swing gas supply.

In response to Staff's recommendation, Laclede agrees in general that each type of swing gas provision should be evaluated separately, but states the locations where it requests 2 of the swing supply types, First of Month index (FOM) and Lower of FOM Index or Daily Index, FOM swing bids were different from the locations where it requested bids for Lower of Gas Daily, daily index (GDD) and FOM.

In this ACA Staff acknowledges that the RFP did not contain overlapping locations for these two types of swing supplies. However, without studying the RFP, this knowledge cannot be ascertained from the Laclede evaluation documentation of the bids. Separate summaries should be beneficial for Laclede employees who do not deal with gas supply issues on a routine basis.

Staff recommends Laclede's evaluation process be revised in response to Staff's recommendation prior to Laclede's RFP process in 2013 for gas supply for the 2013/2014 period.

2. Evaluation of Swing Supply Bids with Multiple Delivery Locations Pricing
Staff recommended:

When Laclede obtains responses to its RFP that it did not request, the tables summarizing the responses should indicate which bids are outside of the RFP request. (This may assist Laclede in any future RFP in justifying whether to add delivery locations to the RFP.)

Laclede's response states if indicating this information in its bid summary tables is helpful to Staff in performing its audit, Laclede agrees to do so.

Staff acknowledges that this would be helpful in its ACA review and additionally offers that such information should be beneficial for Laclede employees not directly involved or who are new to the procurement process. Staff recommends Laclede's evaluation process be revised in response to Staff's recommendation prior to Laclede's RFP process in 2013 for gas supply for the 2013/2014 period.

3. Low Bid Not Accepted
Staff recommended:

To assure an effective RFP process Staff recommends that Laclede have a process for documenting its gas purchase decisions, including why it would not accept the low-bid price in the RFP bid responses.

Laclede responded that it believes Staff's recommendation is reasonable, but Laclede does not commit to a date for such change.

Staff recommends Laclede's evaluation process be revised in response to Staff's recommendation prior to Laclede's RFP process in 2013 for gas supply for the 2013/2014 period.

4. Documentation of Reason for Contract with Affiliate Outside the RFP Process
Staff recommended:

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Laclede indicates its policies and procedures for the gas supply bid and award process are being addressed in the negotiations regarding the CAM and the settlement of Case No. GC-2011-0098.

Because the Laclede policies and procedures for gas supply bid and award impact every ACA period, Staff cannot agree to put the issues on hold in the ACA cases pending a future outcome in GC-2011-0098. Staff recommends Laclede amend its gas supply purchasing policies, procedures, and practices in response to Staff’s recommendation prior to Laclede’s RFP process in 2013 for gas supply for the 2013/2014 period.

Lange Underground Storage Non-Recoverable Gas

Staff proposes an ACA disallowance of \$1,084,904.92 for Laclede’s new ratemaking treatment of estimates of non-recoverable storage gas.

As Laclede points out in its response to Staff’s ACA recommendation, Staff is not proposing Laclede forego recovery of prudently incurred underground storage losses. Staff is recommending the Company recover its UGS losses consistent with its historical ratemaking treatment by requesting changes in general rate cases, not the ACA. In its last general rate case, GR-2010-0171, Laclede cited the FERC Uniform System of Accounts and past regulatory practice as the basis for adjusting the account balance of non-recoverable natural gas account 352.3 to recover these storage losses in the general rate case.

Given the Company states it intends to verify its inventory every **two years** and the Company files its rate cases in **two to three** year intervals, it makes more sense to adjust the inventory balance for losses in the Company's rate case rather than complicate the **annual** ACA review process. With Staff's recommendation a true-up process would not be necessary.

Although the Company states it **intends** to true-up its loss estimate every two years, it has no requirements to do so. Laclede has made a similar adjustment in the 2010/2011 ACA. However, to-date, Laclede has provided no update to the **** _____ ****. Laclede has merely stated "...it intends to have that firm prepare a very thorough and sophisticated model of the losses occurring in Laclede's storage field every two years."

Staff disagrees that Laclede's tariff gives it the authority to flow this type of loss through the PGA/ACA. Staff believes the Company would need formal Commission approval and tariffs to address this type of loss tracker.

Staff further questions Laclede's assertion that the only bearing the **** _____ **** study has is how to minimize losses and has nothing to do with cost recovery. If this is the case, then why has the Company relied on the **** _____ **** to estimate these losses in this ACA case?

Missouri Pipeline Company Overcharges

Staff recommended that this case be held open in order to monitor Laclede's actions with regard to its pursuit of refunds.

In its response Laclede disagrees with Staff's recommendation and seeks clarification from the Staff of the purpose of keeping the ACA case open. Due to the cumulative nature of the ACA balance, the gas costs from this ACA period are impacted by the lack of recognition of past overcharges from MPC. These past overcharges impact this period's ACA balance by overstating the cumulative amount of gas costs needed to be recovered from Laclede's customers. Thus, a final ACA balance recommendation for this ACA period cannot be determined until the ACA balances from these prior periods are finalized.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Annual November PGA/ACA Filing) Case No. GR-2011-0055

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, being of lawful age, on his oath states: that as a Utility Regulatory Manager in the Procurement Analysis Unit, Utility Services Department, Regulatory Review Division, he has participated in the preparation of the foregoing report, in memorandum form, consisting of 5 pages to be presented in the above case; that he has verified that the foregoing Staff Memorandum was prepared by himself and Staff of the Commission that have knowledge of the matters set forth as described below; that he has verified with each of the Staff members listed below that the matters set forth in the Staff Memorandum are true and correct to the best of his knowledge and belief,

Anne Allee, Utility Regulatory Auditor IV:
Lange Underground Storage Non-Recoverable Gas
Mo Pipeline Company Overcharges

Lesa A. Jenkins, P.E., Regulatory Engineer:
Reliability & Gas Supply Analysis
Lange Underground Storage Non-Recoverable Gas

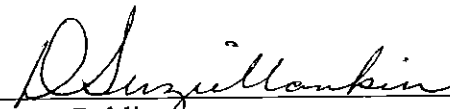
that he has knowledge of the matters set forth in such report and that such matters are true to the best of his knowledge and belief.



David M. Sommerer

Subscribed and sworn to before me this 23rd day of January, 2013.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070



Notary Public