

*Exhibit No.:*

*Issue:* \*\* \_\_\_\_\_  
\*\*

*Witness:* *David M. Sommerer*

*Sponsoring Party:* *MoPSC Staff*

*Type of Exhibit:* *Rebuttal Testimony*

*Case No.:* *GR-2004-0273*

*Date Testimony Prepared:* *October 19, 2006*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**DAVID M. SOMMERER**

**LACLEDE GAS COMPANY**

**CASE NO. GR-2004-0273**

**Jefferson City, Missouri**

***October 2006***

**\*\* Denotes Highly Confidential Information \*\***

**NP**

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


In the Matter of the PGA filing for Laclede Gas )  
Company. )

Case No. GR-2004-0273

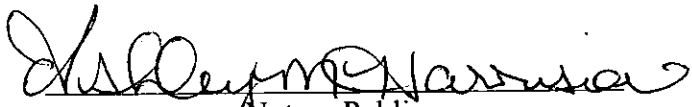
AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
David M. Sommerer

Subscribed and sworn to before me this 18<sup>th</sup> day of October 2004.

  
\_\_\_\_\_  
Notary Public



ASHLEY M. HARRISON  
My Commission Expires  
August 31, 2010  
Cole County  
Commission #06888878

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**TABLE OF CONTENTS**  
**REBUTTAL TESTIMONY**  
**OF**  
**DAVID M. SOMMERER**  
**LACLEDE GAS COMPANY**  
**CASE NO. GR-2004-0273**

EXECUTIVE SUMMARY ..... 1

**LIST OF SCHEDULES:**

- Schedule 1: Order of Rulemaking Case No. GX-02-478.
- Schedule 2: Staff Data Request No. 0109. (Highly Confidential)
- Schedule 3: Laclede RFP. (Highly Confidential)

**REBUTTAL TESTIMONY**  
**OF**  
**DAVID M. SOMMERER**  
**LACLEDE GAS COMPANY**  
**CASE NO. GR-2004-0273**

Q. Please state your name and business address.

A. David M. Sommerer, P.O. Box 360, Jefferson City, Mo. 65102.

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

A. I am the Manager of the Procurement Analysis Department with the Missouri Public Service Commission.

Q. Are you the same David M. Sommerer that filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the direct testimony of Laclede Gas Company (Laclede, Company) witness George E. Godat.

Q. Please provide an executive summary of your testimony.

**EXECUTIVE SUMMARY**

A. On pages 2 and 3, of his direct testimony Mr. Godat cites three primary reasons that the Commission should reject Staff's proposed disallowance. In essence he states that there is a failure to show imprudence, that there is an absence of harm, and an inconsistency with the natural gas price volatility mitigation rule. The Staff disagrees with these characterizations. Simply put, the Company failed to develop a timely analysis to evaluate ever increasing \*\* \_\_\_\_\_ \*\*. The analyses referred to by

1 Mr. Godat were obsolete and flawed in the case of the \*\* \_\_\_\_\_  
2 \_\_\_\_\_. \*\* Staff is asserting that it was imprudent for Laclede to  
3 approximately double the amount of \*\* \_\_\_\_\_  
4 \_\_\_\_\_  
5 \_\_\_\_\_ \*\*. The Staff calculated harm by  
6 evaluating the costs of using the Company's method versus the alternative of pricing  
7 \*\* \_\_\_\_\_ \*\*. Finally, there is no inconsistency with the natural gas  
8 price volatility mitigation rule. In fact, the technique that Laclede cites as a hedging practice,  
9 \*\* \_\_\_\_\_  
10 \_\_\_\_\_ \*\*. See Schedule 1 regarding  
11 the Commission's Order on Rulemaking regarding natural gas price volatility mitigation.

12 Q. Why do you say that \*\* \_\_\_\_\_  
13 \_\_\_\_\_ \*\*?

14 A. The idea of referring to \*\* \_\_\_\_\_ \*\* as a tool to hedge gas prices  
15 was brought up in Case No. GX-02-478, the Commission's rulemaking to address gas price  
16 volatility. Although the Commission did not imply that \*\* \_\_\_\_\_  
17 \_\_\_\_\_  
18 \_\_\_\_\_ \*\*.

19 Q. On pages 3 and 4, of his direct testimony Mr. Godat describes the "History of  
20 Contracting Practice". Do you agree with his characterization on page 4, lines 14 through 20,  
21 as to the reason why Laclede pays \*\* \_\_\_\_\_ \*\*?

22 A. Yes, as far as it goes, but there are other reasons that Mr. Godat does not state  
23 in this section, which gives \*\* \_\_\_\_\_  
24 \_\_\_\_\_

\_\_\_\_\_ \*\*

Q. Do you agree with Mr. Godat's characterization \*\* \_\_\_\_\_  
\_\_\_\_\_ \*\* on page 4, line 21, of his direct testimony?

A. No. I think it is more accurate to echo the Staff's comments in the  
Commission's rulemaking in Case No. GX-02-478 \*\* \_\_\_\_\_

\_\_\_\_\_ \*\* Please see  
the Order on Rulemaking attached as Schedule 1 that contains the referenced  
statement. \*\* \_\_\_\_\_

\_\_\_\_\_ \*\* For example, \*\* \_\_\_\_\_

\_\_\_\_\_ \*\* pricing brings to the  
setting of the PGA rate.

Price mitigation is not an uncommon practice for Missouri LDCs. However, when  
asked (see Highly Confidential Schedule 2) Laclede could \*\* \_\_\_\_\_

\_\_\_\_\_ \*\*

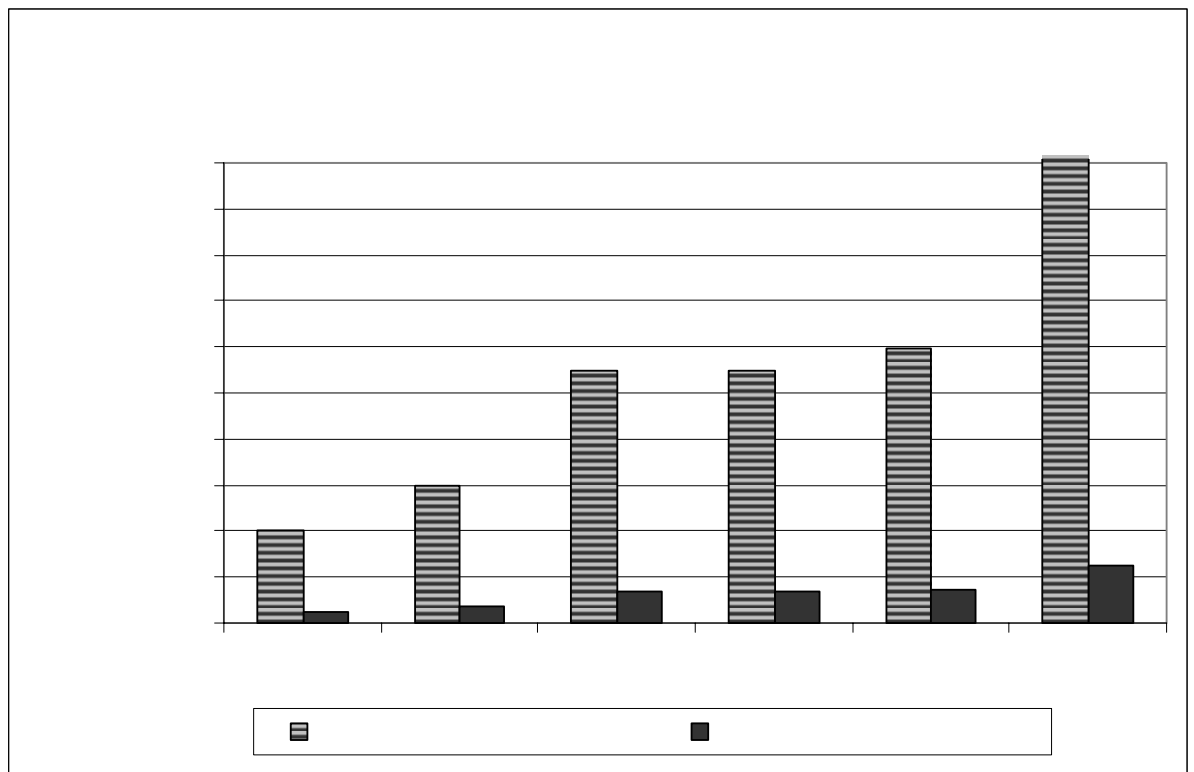
Q. On page 5, line 11-14, Mr. Godat states that the Staff has long been aware of  
Laclede' practice of \*\* \_\_\_\_\_ \*\*. Do you  
agree?

1           A.     Yes.   However, the point is that even a long-standing practice must be  
2 regularly reviewed in the light of changing market conditions. There was a near doubling of  
3 \*\* \_\_\_\_\_ \*\*. These market conditions were  
4 readily apparent to Laclede when it chose to continue paying the increasing \*\* \_\_\_\_\_  
5 \_\_\_\_\_  
6 \_\_\_\_\_ \*\*.

7           As noted in my direct testimony from the 2002/2003 ACA to the 2003/2004 ACA,  
8 \*\* \_\_\_\_\_  
9 \_\_\_\_\_ \*\* for each of the ACA periods 1998/1999  
10 through 2003-2004 are shown in the chart below. (The details are provided in Highly  
11 Confidential Schedule 3 of my direct testimony.)

12                               Chart is Highly Confidential in it Entirety

13       \*\*



\_\_\_\_ \*\*

As noted in my direct testimony, besides the study being woefully stale, it contained certain flaws that were recognized in Laclede's own footnotes to the study. Thus, the savings calculated in Laclede's study are overstated.

Q. Has Mr. Godat cited Laclede's \*\* \_\_\_\_\_ \*\* as support for his direct testimony?

A. Yes, page 8, of Mr. Godat's rebuttal testimony provides this discussion. In this discussion, Mr. Godat carefully navigates the obvious inadequacies of an outdated study \*\* \_\_\_\_\_ \*\* on the other. In essence, Mr. Godat appears to make the argument that since the practice of \*\* \_\_\_\_\_

\_\_\_\_\_ \*\* at any level is self-evident. However, just because a study was conducted in 1996 and not done again until after the ACA period in question here, does not make the practice worth questioning. There was a near doubling of these fixed charges for the winter of 2003-2004. Laclede knew this when they received responses to their \*\* \_\_\_\_\_

\_\_\_\_\_ \*\*.

Q. On page 9, lines 9-18, of Mr. Godat's rebuttal testimony, the comment is made that change in the \*\* \_\_\_\_\_ \*\* were "minuscule" compared to the rising commodity costs? Do you agree with that characterization?



1           A.     No. It's hard to view a \*\* \_\_\_\_\_  
2                 \*\* as miniscule. In reality, the Company has numerous methods to control price  
3 volatility. Rather than representing some uncontrollable market price multiplied by the  
4 volumes purchased, the overall cost of a company's gas portfolio is impacted by numerous  
5 decisions that are under its control. Each one of these decisions may impact the total gas cost  
6 by several million dollars. \*\* \_\_\_\_\_  
7                 \*\* the percentage impact seems minor. \*\* \_\_\_\_\_ \*\* is not minor  
8 to customers who ultimately pay these costs.

9           Q.     Do you agree with Mr. Godat's discussion indicating on page 10, of his  
10 testimony that there is absence of harm?

11           A.     No. The Staff has calculated its estimate of harm by its adjustment in this case  
12 of \$2,424,020.

13           Q.     Do you agree the \*\* \_\_\_\_\_  
14                 \*\* as discussed on page 11, lines 1-21, of Mr. Godat's  
15 rebuttal testimony?

16           A.     No. Mr. Godat's argument is that since the Company's revenue requirement in  
17 Case No. GR-2002-0356 included a \$3.8 million imputation for off-system sales and capacity  
18 release revenues, \*\* \_\_\_\_\_ \*\*. There are several  
19 reasons why the Staff did not calculate any offset for off-system sales benefits. First, there is  
20 no certainty about the \*\* \_\_\_\_\_ \*\* in the  
21 \$3.8 million imputation. There was no stipulation as to the breakdown between \*\* \_\_\_\_\_  
22 \_\_\_\_\_  
23 \_\_\_\_\_  
24 \_\_\_\_\_

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Q. What further complications result from trying to identify some benefit from  
having \*\* \*\*?

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Q. Do you agree with Mr. Godat's statement on page 11, lines 22 – 23, and  
page 12, lines 1 and 2, that:

1 On the other hand, the failure to reject Staff's proposed disallowance  
2 would deprive Laclede of the value of what it bargained for in the  
3 Stipulation – and in the process violate that agreement – by taking  
4 away with an ACA adjustment what the Company was entitled to keep  
5 under the Stipulation

6 A. No. The Staff is not arguing that the \$3.8 million was somehow understated  
7 and is seeking to modify that amount with a rate case adjustment in the ACA process. This  
8 case involves the disallowance of \*\* \_\_\_\_\_ \*\*. The  
9 costs are considered a “gas cost” subject to the PGA/ACA process. The costs must be  
10 justified in terms of prudence as any other cost that is recovered through the ACA.

11 Q. Do you agree with Mr. Godat's discussion on page 12 and 13, of his testimony  
12 that the Staff's proposed disallowance is somehow inconsistent with the price volatility  
13 mitigation rule set forth at 4 CSR 240-40-018?

14 A. No. The Company's premise that \*\* \_\_\_\_\_  
15 \_\_\_\_\_ \*\* has to be accepted before any  
16 conceivable inconsistency could be considered. \*\* \_\_\_\_\_ \*\*, by definition, may not be  
17 used. Laclede has \*\* \_\_\_\_\_ \*\* and storage resources that it can utilize when  
18 the weather turns cold. \*\* \_\_\_\_\_ \*\* may also be utilized when the weather turns cold.  
19 However, Laclede's contract provisions for \*\* \_\_\_\_\_  
20 \_\_\_\_\_ \*\* of gas from these contracts. Thus, Laclede nominates gas from the  
21 \*\* \_\_\_\_\_ \*\* to meet these requirements. Additionally, Laclede has  
22 minimum withdrawal requirements for its storage resources. Thus, the \*\* \_\_\_\_\_  
23 \_\_\_\_\_ \*\* to be accessed. Therefore, arguing that a \*\* \_\_\_\_\_ \*\* at any  
24 cost, is worth the value is questionable.

25 Even one of the listed tools from the volatility rule, call options, may not make sense  
26 if the strike price is too high or the premium too expensive for the insurance. For example,

Rebuttal Testimony of  
David M. Sommerer

1 although a call option can provide a ceiling for how high gas prices can go, the premium that  
2 must be paid to provide that protection must not be ignored. In this case, the Company  
3 appears to argue that pricing \*\* \_\_\_\_\_

4 \_\_\_\_\_  
5 \_\_\_\_\_ \*\*. Here the company is arguing that a pricing provision

6 \*\* \_\_\_\_\_

7 \_\_\_\_\_  
8 \_\_\_\_\_ \*\* In addition, the great majority of the Company's other \*\* \_\_\_\_\_

9 \_\_\_\_\_  
10 \_\_\_\_\_ \*\*

11 Q. Does this conclude your rebuttal testimony?

12 A. Yes, it does.

**SCHEDULE 1 HAS BEEN DEEMED HIGHLY  
CONFIDENTIAL IN ITS ENTIRETY**

**SCHEDULE 2 HAS BEEN DEEMED HIGHLY  
CONFIDENTIAL IN ITS ENTIRETY**

**SCHEDULE 3 HAS BEEN DEEMED HIGHLY  
CONFIDENTIAL IN ITS ENTIRETY**