

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File,  
Case No. GR-2014-0324 - Missouri Gas Energy

FROM: Lesa A. Jenkins, PE, Regulatory Engineer - Procurement Analysis

/s/ David M. Sommerer 06/15/16      /s/ Jeffrey A. Keevil 06/15/16  
Project Coordinator/ Date                      Staff Counsel's Office/ Date

SUBJECT: Staff's Response to Missouri Gas Energy's (MGE) Response to Order,  
Case No. GR-2014-0324, 2013-2014 Actual Cost Adjustment (ACA) Filing

DATE: June 15, 2016

The Affiliate Transactions Rules found at 4 CSR 240-40.015 and 40.016 (Rules) describe a Cost Allocation Manual (CAM) as including the criteria, guidelines and procedures the utility will follow to be in compliance with the Rules. The Rules also state that the CAM should set forth cost allocation, market valuation and internal cost methods related to transactions with affiliates. The purpose of this CAM is to specify the criteria, guidelines, and procedures that Laclede Gas Company (Laclede) will follow to be in compliance with the requirements of the Rules and in doing so, to provide the Commission with transparency into processes and procedures that govern how costs are determined, allocated and assigned between Laclede and its affiliates, and define how fair market price (FMP) and fully distributed cost (FDC) are to be calculated.

The Order Approving Stipulation and Agreement, Granting Waiver, and Approving Cost Allocation Manual in various Laclede Gas Company cases (complaint case, No. GC-2011-0098, and seven ACA cases with the most recent being GR-2012-0133) was issued August 14, 2013 and effective August 24, 2013. The CAM and the Gas Supply and Transportation Standards of Conduct (Standards of Conduct) were included in Appendices 1 and 2 of the Stipulation and Agreement. Effective July 31, 2013 the Commission authorized the sale of MGE to Laclede Gas Company in GM-2013-0254. The closing date of the sale was September 1, 2013. As part of the Stipulation and Agreement approving Laclede Gas Company's (Company) acquisition of MGE, the Company agreed that the Laclede and MGE Divisions shall comply with the Commission's Affiliated Transaction and Marketing Affiliate Transaction Rules, 4 CSR 240-40.015 and -40.016, and any variances or waivers granted by the Commission thereto. The Company agreed it would apply Laclede's CAM and Standards of Conduct to gas supply transactions involving MGE.

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

**NP**

Staff filed its ACA Recommendation for GR-2014-0324 concerning MGE's 2013-2014 ACA filing on December 8, 2015. MGE filed its Response to Staff Recommendation on February 8, 2016. Staff filed its Reply to MGE's Response on February 18, 2016. Staff made comments in the recommendation that MGE is not documenting refusals of unsolicited requests per the requirements in the Order Approving Stipulation and Agreement, Granting Waiver, and Approving Cost Allocation Manual.

On May 27, 2016, MGE filed its Missouri Gas Energy's Response to Order Directing Filing of Status Report and Request for Waiver/Variance. MGE refers to a "misunderstanding" of when a request should be considered unsolicited. MGE refers to unsolicited requests as those outside of normal gas trading hours of 7 am to 1 pm. MGE states that requests from suppliers/marketers for MGE to purchase natural gas during normal gas trading hours of 7 am to 1 pm are routine and should be considered as the time when MGE is "Open for Business", when offers to sell or buy gas are routinely submitted by and between multiple buyers and sellers. If, as MGE claims, such purchases are not unsolicited, then they would fall under the category of either (1) purchases of gas supplies for multi-month periods (purchases for longer than 1-month), or (2) short term purchases of gas supply (one month or less), both of which have documentation requirements in the Standards of Conduct. The CAM and Standards of Conduct documentation requirements were in place for MGE effective September 1, 2013.

### **Unsolicited Requests**

The May 27, 2016, MGE Response to Order Directing Filing of Status Report and Request for Waiver/Variance states in paragraphs 6 and 7 that:

MGE has developed a system under which every unsolicited request to sell gas to the Company outside of normal trading hours (whether accepted or refused) will be fully logged and preserved through a combination of instant messaging and deal sheets. **MGE intends to demonstrate this process to the Commission Staff before it is implemented beginning with the start of MGE's next ACA period.** (Emphasis added.)

MGE is not in compliance with the Commission approved Stipulation and Agreement in GM-2013-0254 and not in compliance with the Commission approved CAM in GC-2011-0098 that includes the Standards of Conduct for documentation requirements for unsolicited requests. Because MGE was not keeping the required documentation for unsolicited requests to sell gas to the Company, MGE cannot show that it purchased natural gas at the lowest price for these unsolicited requests. MGE does not plan to implement the compliance documentation until the next ACA period, the 2016/2017 ACA which begins July 2016, almost three years after the Stipulation and Agreement documentation requirements that were in place September 1, 2013.

Documentation for purchases of unsolicited gas supply are contained in the Standards of Conduct, Section F, as follows:

**F. Purchase of unsolicited gas supply** — Laclede shall only consider accommodating unsolicited requests for short-term purchase of gas supply where the Company can operationally take such supplies without incurring any known penalty or detriment. Laclede shall maintain a contemporaneous log of all instances identifying where it has accommodated and/or refused such requests, including: the identity of the requesting supplier; the date the request was made; the pricing and quantity of the gas supply offered; the awarded pricing, quantity, receipt/delivery point(s); and any other terms.

### **Solicited Requests**

The May 27, 2016 MGE Response to Order Directing Filing of Status Report and Request for Waiver/Variance states in paragraph 4 that “MGE did indeed receive numerous requests to sell gas to the Company during the subject ACA period. Almost all of those requests, however, came during normal gas trading hours (i.e. between 7am and 1pm)...” which the Company claims are not unsolicited. Because MGE claims they are not unsolicited, these “solicited” requests fall under the category of either (1) purchases of gas supplies for multi-month periods (purchases for longer than 1-month), or (2) short term purchases of gas supply (one month or less).

Documentation for purchases of gas supplies for multi-month periods (purchases for longer than 1-month) are contained in the Standards of Conduct, Sections A.4 through A.7 as follows:

**A.4.** In the event a gas supply contract is awarded, Laclede shall maintain the following contemporaneous documentation: (a) any diversity, credit, or reliability-related volume limitations placed on the maximum volumes Laclede will purchase from an individual supplier or from any one supplier on a specific pipeline (broken down by baseload, combo, and swing); (b) an explanation of the diversity, credit and/or reliability-related reasons for imposing such limitations; (c) a description of the process used to transmit the supply request to all eligible suppliers, evaluate bids, and negotiate final prices and terms; (d) a list of all suppliers that were sent each RFP; (e) a complete summary of all bids received and all prices accepted, together with copies of all underlying documents, contracts and communications; (f) a summary and explanation of suppliers disqualified for credit, performance or other criteria, and (g) a copy of the policy or procedure employed by Laclede for awarding contracts in instances where an affiliate and an unaffiliated supplier have offered identical pricing terms.

For phone calls or texts, Laclede shall maintain contemporaneous logs documenting the discussions and decisions.

**A.5.** In the event a gas supply contract is awarded to an affiliate at a location in which no other contracts were awarded, the Company shall maintain contemporaneous documentation showing that the affiliate's bid price was equal to or lower than the bids received from non-affiliated suppliers, and that any upward or downward adjustment in the final contract price was justified by changes in the market.

**A.6.** In the event a gas supply contract is awarded to an affiliate at a location at which Laclede also awarded gas supply contracts to non-affiliated suppliers, the Company shall maintain contemporaneous documentation showing that the price established under the contract awarded the affiliate was within or lower than the range of prices established under contracts awarded to entities other than the affiliate.

**A.7.** If the affiliate's bid price or contract price does not meet the criteria in paragraphs 5 or 6, Laclede may not award the gas supply contract to the affiliate, unless the Company can demonstrate and contemporaneously document that a more favorable bid was rejected for legitimate reasons relating to the rejected bidder or bidders' creditworthiness, performance history (or lack thereof), or other consideration bearing on the fitness and reliability of the bidder to provide the requested service.

Documentation for short term purchases of gas supply (one month or less) are contained in the Standards of Conduct, Section B.4 as follows:

**B.4.** For each and every gas supply inquiry and/or award, Laclede shall maintain the following contemporaneous documentation: (a) any diversity, credit, or reliability-related volume limitations placed on the maximum volumes Laclede will purchase from an individual supplier or from any one supplier on a specific pipeline; (b) an explanation of the diversity, credit, and/or reliability-related reasons for imposing such limitations; (c) a description of the process used to transmit and/or receive supply notifications to eligible suppliers, evaluate bids/responses, and negotiate final prices and terms; (d) copies of all written communications and descriptions of all unwritten communications that solicit bids from suppliers; (e) a list of all suppliers that were notified of Laclede's gas supply needs; (f) copies of all bids/responses/inquiries received and all prices accepted, together with copies of all underlying documents, contracts and communications; (g) a list of all suppliers disqualified for credit, performance or

other criteria along with an explanation of the basis for each disqualification; and (h) a copy of the policy or procedure employed by Laclede for awarding contracts in instances where an affiliate and an unaffiliated supplier have offered identical pricing terms. For phone calls or texts, Laclede shall maintain contemporaneous logs documenting the inquiries, discussions and decisions. (Emphasis added.)

MGE only provided documentation for inquiries or bids received and awarded for the 7 am to 1 pm requests. In prior ACA cases, prior to Laclede’s acquisition of MGE, Staff routinely received copies of \*\* \_\_\_\_\_

\_\_\_\_\_ \*\* Staff’s sampling shows for the 2013/2014 ACA the following:

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The documentation for 2013/2014 calls into question whether MGE is documenting all bids/responses/inquiries received. The documentation for 2013/2014 calls into question whether MGE purchased natural gas at the lowest price for these “solicited” requests. The documentation for 2013/2014 calls into question MGE’s compliance with the Commission approved Stipulation and Agreement in GM-2013-0254 and the Commission approved CAM in GC-2011-0098 that includes the Standards of Conduct for documentation requirements for (1) purchases of gas supplies for multi-month periods (purchases for longer than 1-month), and (2) short term purchases of gas supply (one month or less). The Stipulation and Agreement documentation requirements were in place September 1, 2013.

Staff clarifies that the documentation being sought for the 7 am to 1 pm timeframe is not the documentation received in response to the MGE Request For Proposal (RFP) process.

**Recommendation:**

For the gas supply documentation issue in this 2013/2014 ACA case Staff requests the following:

1. A Commission order that Laclede Gas Company within 30-days of the effective date of the order train all personnel involved in the gas supply process of the documentation requirements for each and every gas supply bid/response/inquiry received and the gas supply awards, per the requirements in the CAM and Standards of Conduct. Include in the order that Laclede provide Staff with a copy of, for both its MGE and Laclede

divisions, an outline of the documentation requirements training and the date(s) the training was conducted.

2. A Commission order that Laclede Gas Company within 30-days of the effective date of the order establish internal controls for ensuring the MGE and Laclede divisions are in compliance with the gas supply documentation requirements in the CAM and Standards of Conduct. Include in the order that Laclede provide Staff with a copy of, for both its MGE and Laclede divisions, the procedures and internal controls in place to monitor and ensure compliance with the CAM and Standards of Conduct.
3. The Commission open a docket for the purpose of investigating Laclede Gas Company's compliance with the gas supply documentation requirements of the CAM and Standards of Conduct.

**Other Issues in This Case:**

For this case there is a separate School Transportation Program (STP) balancing issue being discussed by the parties. A Status Report was filed May 23, 2016 and the Commission's May 26, 2016 Order states that no later than August 31, 2016, Staff and MGE shall file either a stipulation and agreement or other pleading indicating that no agreement was reached regarding that issue.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

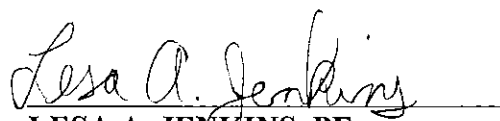
In the Matter of Laclede Gas Company,                    )  
Missouri Gas Energy's Purchased Gas                    )  
Adjustment Tariff Filing                                    )            Case No. GR-2014-0324

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

STATE OF MISSOURI            )  
  )            ss.  
COUNTY OF COLE            )

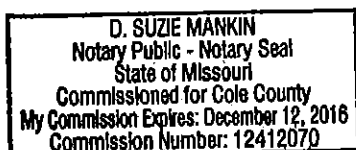
**COMES NOW LESA A. JENKINS, PE** and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Response in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

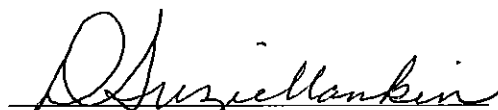
Further the Affiant sayeth not.

  
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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 14<sup>th</sup> day of June, 2016.



  
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Notary Public