Exhibit No.:	
Issue:	**Operation of EFPP**
Witness:	**Scott E. Jaskowiak**
Type of Exhibit:	**Surrebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No.:	**GT-2001-329**

LACLEDE GAS COMPANY

GT-2001-329

SURREBUTTAL TESTIMONY

Of

SCOTT E. JASKOWIAK

May 30, 2001

NON-PROPRIETARY

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff) Filing to Implement an Experimental Fixed) Price Plan and Other Modifications to Its Gas) Supply Incentive Plan.)	Case No. GT-2001-329

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Scott E. Jaskowiak, of lawful age, being first duly sworn, deposes and states:

4. My name is Scott E. Jaskowiak. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director of Energy Services of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony, consisting of pages 1 to 28, and Schedule Nos. 1 to 4, inclusive.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Scott Jaskowiak
Scott E. Jaskowiak

Subscribed and sworn to before me this 29th day of May, 2001.

Joyce L. Jansen
JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: July 2, 2001

SURREBUTTAL TESTIMONY OF SCOTT E. JASKOWIAK

Q. Please state your name and address.

A. My name is Scott E. Jaskowiak and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. Are you the same Scott E. Jaskowiak who previously submitted direct testimony in this proceeding?

A. Yes, I am.

PURPOSE OF TESTIMONY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my testimony is to respond to a number of statements that appear in the rebuttal testimony submitted by Staff witness David Sommerer and Public Counsel witnesses James Busch and Barbara Meisenheimer. I believe these statements inaccurately characterize the Company's Gas Supply Incentive Plan ("GSIP") and the impact it has had on the Company and its customers. I will also sponsor and explain several analyses that Laclede witness Kenneth J. Neises relies on in his response to the rebuttal testimony filed by these witnesses, as well as Staff witness Robert Schallenberg.

GENERAL RESPONSE

Q. Do you have any general observations regarding the rebuttal testimony filed by Staff and Public Counsel?

A. Yes. As Mr. Neises indicated in his direct testimony, less than two years ago the Company submitted extensive testimony and analysis in Case No. GT-99-303 showing that the Company had achieved substantial net benefits for its customers as a result of its efforts under the GSIP. In fact, the Company specifically identified at least an additional

$45 million in savings and revenues that would not have been available for sharing with the Company's customers absent the GSIP and the Company's superior performance thereunder -- an amount that far exceeded what the Company was permitted to retain under the program. Having considered all of the competent and substantial evidence upon the entire record, the Commission found that the GSIP, as modified by the Commission, was in the public interest. Despite all of this evidence proving that the GSIP worked in the manner intended by the Commission, both Staff and Public Counsel have characterized the GSIP mostly in terms of the earnings retained by the Company under the Plan and have simply ignored these savings. In fact, they even suggest that such savings are either non-existent or would have been achieved without the GSIP, thereby implying that the earnings retained by the Company under the Plan have come at the expense of Laclede's customers.

Q. Are these assertions valid?

A. No. And I think it is important to point out that neither Staff nor Public Counsel have offered anything substantive in their rebuttal testimony to dispute that these benefits were demonstrated in Case No. GT-99-303 or that the Company has continued to achieve such benefits for its customers since that case concluded.

Q. Can you offer an example of where Staff or Public Counsel has made assertions regarding the GSIP and its impact on Laclede and its customers that are unsupported by any substantive analysis?

A. Yes. Although there are many such examples, one of the most notable can be found at page 6 of the rebuttal testimony submitted by Public Counsel witness James Busch. Beginning on line 5, Mr. Busch asserts that "the claimed reductions [under the GSIP] could have been accomplished without an incentive mechanism in place." In fact, he asserts that "the activities that Laclede has engaged in since the advent of its incentive plan are basically the same activities that it was performing prior to the experimental GSIP." Moreover, he goes on to suggest that Public Counsel's testimony in Case No. GT-99-303 demonstrated that "Laclede has not incorporated any innovative methods for procuring natural gas at lower prices for its ratepayers." He therefore concludes that the Company "should not be rewarded for doing business as usual."

Q. Aside from being unsupported by any analysis, why do you believe these assertions are not valid?

A. Contrary to Mr. Busch's claims, the evidence presented in Case No. GT-99-303 showed the Company has, in fact, pursued a number of innovative and effective strategies as a result of the GSIP which provided significant net benefits to its customers. These strategies, in all likelihood, wouldn't or couldn't have been taken in the absence of the incentive plan. For example, the Company reduced supply reservation costs by contracting for less flexibility. Additionally, the Company took the unusual step of locking in the level of demand charges it had to pay to reserve the majority of its gas supply portfolio over a multi-year period. Finally, **______________________________ ____ ____________________** Through these strategies and the **____________________ ____**, the Company was able to generate significant supply procurement savings.

Q. Did the evidence in Case No. GT-99-303 demonstrate any other initiatives that were taken by the Company as a result of the GSIP and that produced benefits for its customers?

A. Yes. The evidence in that case clearly showed that, as a result of the GSIP, the Company took the initiative to better optimize the transportation resources available to it. The Company recommended and successfully convinced Mississippi River Transmission Company ("MRT"), the Company's largest pipeline supplier, to eliminate it's Flexible Contract Demand. This essentially eliminated non-effective capacity on the MRT system, providing additional capacity that the Company could resell through the secondary market, thereby, immediately reducing the overall transportation costs to the Company's customers. The Company's decision to release capacity on a multi-month basis is yet another example of a strategy that the Company pursued with favorable results for its customers. Since that time, the Company has taken the initiative to negotiate firm transportation capacity with parties other than the traditional pipeline companies, thereby further reducing its upstream transportation costs, and by optimizing its mix of upstream transportation alternatives. Together, these strategies significantly reduced the Company's overall cost for pipeline transportation.

Q. Were you able to quantify in Case No. GT-99-303 the savings and revenues that were achieved by the Company as a result of these actions and initiatives?

A. Yes. As I indicated previously, and as I show on Schedule 1 to my surrebuttal testimony, the Company quantified at least $45 million in additional savings and revenues as a result of these various initiatives.

Q. And has the Company continued to achieve additional savings and revenues as a result of these initiatives?

A. Yes. As also shown on Schedule 1, the additional savings and revenues achieved by the Company under the GSIP have continued to grow, amounting to some $19.3 million in fiscal year 2000 alone. When combined with the $45 million savings achieved during the first three years, this translates into an overall net benefit level of over $64 million for the four years of the GSIP ending last September.

Q. How is this four year total broken down by GSIP component?

A. As shown in Schedule 1 to my surrebuttal testimony, during the first four years of the GSIP the Company has achieved at least $28.7 million in savings or offsetting revenues in the gas procurement and capacity release areas alone – savings and revenues that would not have been generated and flowed through to customers absent the GSIP. These savings include at least $26.3 million in gas procurement related savings and $2.4 million in offsetting revenues from the release or sale of pipeline capacity. The GSIP also permitted the Company to flow through $1.9 million from optimizing the Company's mix of upstream transportation alternatives and over $4.8 million in off-system sales revenues that would have otherwise gone entirely to the Company's shareholders. In addition, an incremental cost savings of $28.9 million was achieved from the Company's successful efforts to negotiate pipeline discounts at levels greater than that established by the Commission in Case No. GT-99-303, which represented the average level of discounts achieved by other buyers of capacity on the same pipelines. In my view, this list of savings clearly demonstrates the value of the Company's GSIP and the need to continue it in the manner proposed by the Company.

Q. Would you please discuss in greater detail the gas procurement initiatives that are reflected and quantified in Schedule 1 to your surrebuttal testimony?

A. Yes. Schedule 1 reflects the savings resulting from the Company's decision to contract for less flexible firm gas supplies. As I thoroughly discussed in my testimony in Case No. GT-99-303, the Company reduced the level of Combination and Swing type supplies and increased the level of Baseload type supplies in its firm gas supply portfolio.

Q. What do you mean by Baseload, Combination and Swing type supplies?

A. Baseload, Combination and Swing type supplies represent three types of Firm Gas Supply Contracts that the Company uses to describe the flexibility in its gas supply portfolio. Each contract type contains different characteristics and is priced accordingly. Baseload represents the least flexible and lowest cost contract. Under these contracts, the Company generally agrees to take a uniform daily amount of supply regardless of fluctuations in demand. Swing represents the most flexible and highest cost contract. Swing generally provides for 100% daily flexibility with no minimum take requirements. Finally, Combination represents supply contracts that have characteristics between Baseload and Swing and typically is priced somewhere in between. This contract type typically provides daily flexibility but contains some type of minimum take requirements.

Q. Why is this significant?

A. By reducing the level of Combination and Swing supplies and increasing the level of Baseload supplies in its portfolio, the Company was able to significantly reduce its gas supply demand costs.

Q. By what amount did the Company's firm gas supply portfolio change?

A. I estimate that as a result of the GSIP, the amount of Baseload in the Company's portfolio increased from an average of 14% prior to the GSIP to an average of 23% for the four years ending September 2000 of the GSIP. On the other hand, the amount of Combination and Swing type supplies in the Company's portfolio decreased from an average of 71% and 14% respectively prior to the GSIP to an average of 67% and 10% respectively during the GSIP. Unquestionably, in return for a share of the potential savings under the GSIP, the Company was willing to decrease the flexibility in its supply portfolio in order to reduce costs.

Q. As a result of its efforts, by what amount did the Company reduce its supply reservation costs?

A. I estimate that for the period from the GSIP's inception in October 1996 through its most recent fiscal year ending September 30, 2000 the Company saved at least $4.1 million as a result of this initiative.

Q. Could you please discuss the other gas procurement initiatives that are reflected and quantified in Schedule 1?

A. Yes. As discussed in my testimony in Case No. GT-99-303, under the GSIP, the Company negotiated very favorable arrangements with its suppliers and also took the initiative to fix or lock in the reservation or demand costs on the majority of its gas supply portfolio over the better part of the GSIP's initial term. As a result, the Company produced significant gas procurement savings by avoiding significantly increasing supply reservation costs in years two through four of the GSIP. As a result of these actions, I estimate that the Company saved at least $9.5 million.

Q. Please continue.

A. The final item that I listed and quantified under gas procurement in Schedule 1 was the beneficial supply arrangements negotiated by the **______________________________

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Q. Could you please explain how you arrived at your $2.4 million estimate for incremental Capacity Release Revenue in Schedule 1?

A. Yes. As explained in my testimony in Case No. GT-99-303, the Company took several initiatives in the pipeline capacity area that produced significant benefits for its customers. The first of these initiatives relates to the Company's decision to enter into multi-month capacity release arrangements. Although the Company had previously entered into a limited number of multi-month arrangements, such a practice was not common for the Company and as a general rule, had only been considered where it could price the transaction at essentially the pipelines' maximum applicable rates. Since the maximum allowable amounts of revenues were being generated under these arrangements, the Company believed these multi-month release arrangements were easily supportable and not subject to being second-guessed. With the GSIP in place, however, the Company was also willing to take the risk of entering into multi-month arrangements at rates that were below the maximum rates in effect at the time. This was based on what turned out to be the Company's correct assessment that the value of capacity was likely to fall and that locking in a rate at such levels would ultimately produce greater revenues than would month to month transactions. Because of the clear standards that were provided by the GSIP, and because the GSIP provided the Company an incentive to share in the benefits if its assessment of the market turned out to be correct, the Company has since made multi-month release arrangements common practice, even at rates below the maximum pipeline rates. I estimate that the incremental revenue that was produced as a result of the Company's decision to enter into multi-month release arrangements at below maximum rates was approximately $1.3 million.

Another initiative that was thoroughly discussed in my testimony in Case No. GT-99-303, relates to the Company's successful effort to minimize inefficiencies associated with its pipeline resources. As a result of this initiative, the Company determined that the under-utilized capacity associated with MRT's Flexible Contract Demand could be better utilized through the elimination of such service. Since MRT's firm shippers were essentially paying for the under-utilized capacity through straight-fixed variable rate design, the Company aggressively pursued having MRT eliminate such service and allocate such capacity to the shippers who pay for the capacity anyway. As a result of these efforts, the Company was allocated, without any overall increase in costs, an additional 12,480 MMBtu per day of contract demand, which it then released for approximately $1.1 million in incremental revenue through the Company's most recent fiscal period ending September 2000.

Q. Could you please explain the other categories of GSIP savings in Schedule 1?

A. Yes, as discussed in my testimony in Case No. GT-99-303, the Company generated approximately $4.8 million in off-system sales revenues that would have otherwise gone entirely to the Company's shareholders. Also, as result of Case No. GT-99-303, a new component, Pipeline Mix, was added to the GSIP that provides the Company an incentive to reduce overall costs through the optimization of its transportation alternatives. As a result, the Company modified its upstream transportation mix and reduced transportation costs by another $1.9 million. Finally, the transportation discount savings of $28.9 million in Schedule 1 represents the Company's successful efforts to negotiate pipeline discounts at levels greater than that established by the Commission in Case No. GT-99-303 which represented the average level of discounts achieved by other buyers of capacity on the same pipeline systems.

Q. What conclusions do you believe should be drawn from these savings?

A. Contrary to Mr. Busch's claim in his rebuttal testimony, as well as the assertions made by other witnesses for Staff and Public Counsel, it is clear that the GSIP, and the Company's management of its gas supply and transportation assets under that Plan, have produced substantial net benefits for Laclede's customers. Moreover, by approving an extension of the GSIP and determining that it was in the public interest, I believe the Commission recognized the beneficial role that the GSIP has played in this regard. In view of these prior determinations, I believe it is incumbent on any party who disputes the beneficial role played by the GSIP in reducing gas costs and enhancing revenues for our customers to provide a sound analysis proving these benefits did not exist. Despite the fact that the majority of the analysis and data underlying the Company's quantification of these benefits has been available for nearly two years, I found nothing in the rebuttal testimony submitted by Staff and Public Counsel that would constitute such an analysis.

Q. Do you have any other general observations regarding the rebuttal testimony submitted by Staff and Public Counsel?

A. Yes. Both Staff and Public Counsel have proposed modifications to the GSIP in the event the Commission concludes that it should be continued. These modifications consist of establishing higher or new baselines for various components of the GSIP. Mr. Neises and other Company witnesses address the merits of most of these proposals. However, in Schedule 2 to my surrebuttal testimony, I have prepared an analysis of the impact that such baselines would have had on the Company's earnings potential under the GSIP had they been in effect in previous years. That analysis shows that the baselines proposed by these parties would virtually eliminate any opportunity for the Company to share in any savings or revenues that were achieved as a result of the GSIP. I have also included an analysis in Schedule 2 showing the immediate losses of approximately $3.4 million that the Company would be required to absorb in the event the gas procurement benchmark proposed by Staff witness Sommerer were to be adopted by the Commission. Once again, Mr. Neises discusses the significance of these analyses as they relate to the issues in this case.

Q. Has the Company also proposed certain modifications to the GSIP in an effort to address the concerns raised by Staff and Public Counsel in their rebuttal testimony?

A. Yes.

Q. Could you please explain Schedule 3 of your surrebuttal testimony?

A. Yes. Schedule 3 quantifies the impact of the Company's proposed modifications to the GSIP by showing what impact they would have had if they had been in effect during for the Company's most recently completed fiscal year from October 1999 through September 2000. Had such modifications been in effect during this period, approximately $1.0 million of additional funding would have been made available for low income energy assistance. In addition, the Company would have received approximately $4.0 million less than it actually retained under the existing GSIP, and all of the Company's customers would have received the difference equal to an additional $3.0 million of benefits above those actually received under the existing GSIP.

REBUTTAL OF STAFF

Gas Procurement

Q. Do you agree with Mr. Sommerer's statement and explanation beginning on page 6 line 13 of his testimony that the index concept is flawed and that an index-based benchmark encourages the Company not to use fixed price contracts?

A. No, as explained by Company witness Neises, the primary reason Laclede did not utilize fixed price instruments was the complete absence of any assurances that locking in a price above a historical average of such prices would be deemed reasonable.

Q. Do you have any additional information that would suggest that the absence of such assurances was a valid concern?

A. As Mr. Neises discusses in his surrebuttal testimony, while the existing GSIP has an incentive feature for the Company to lock in fixed prices in the event prices fell below the five-year historical average, it was not the only fixed price incentive proposal presented in Case No. GT-99-303 that emphasized the use of historical averages. To the contrary, in Case No. GT-99-303 Staff apparently felt strong enough about the need to use historical averages for purposes of fixing prices that it proposed the use of a five-year historical average to fix a rate for Laclede. Based on market conditions that existed at the time, Staff's proposal would have cost Laclede over $50 million to guarantee such rate. In addition, the following year when Staff entered into an incentive plan agreement with Missouri Gas Energy ("MGE") it once again supported the use of historical averages to determine the trigger price at which fixed rate would be implemented. Notably, this historically-derived trigger price was used when the NYMEX strip was approximately $3.15 per MMBtu, or $0.90 per MMBtu higher than the trigger price agreed to by the parties. Despite subsequent increases in market prices and subsequent efforts by MGE to negotiate a more market responsive target, the parties were never able to agree on a trigger price above the historically derived price.

Q. Did Staff exhibit the same reluctance to move away from historical prices and toward more market-responsive approaches for any of the Company's other price protection programs?

A Yes. During the summer of 2000, the Company filed to obtain authorization to increase the authorized expenditure level for options under its Price Stabilization Program ("PSP") from $4 to $10 million because the price of such options increased over 500%.

Furthermore, the Company also requested authorization to purchase fixed price instruments and collars.

Q. Was this request granted?

A. No. Notwithstanding the significant change in market conditions, both Staff and Public Counsel opposed the Company's request. Staff filed comments with the Commission in Case No. GO-2000-394 recommending that "the Commission should not adopt the approach requested to approve the prudence and ratemaking treatment of Laclede's gas purchase decisions before those decisions are made" and further suggested that the Commission simply state that "Laclede is to make the necessary gas purchase decisions that are required for it to fulfill its obligation to provide safe and adequate service at just and reasonable rates, which will be reviewed in the ACA process." Ultimately, the only modification that was made to the PSP was to eliminate the required volume coverage for the Program.

Q. What do you conclude from Staff's approach to these matters?

A. I think it is fundamentally unfair to attribute the Company's actions this past winter regarding the use of fixed price instruments to structural flaws in the GSIP. Given this background, I can only agree with Mr. Neises that the real impediment to the use of such instruments was a persistent unwillingness on the part of Staff, and to a lesser degree Public Counsel, to provide any assurances that the use of market-responsive instruments would be deemed reasonable in the event prices eventually declined rather than rose. In fact, all of their actions suggested a very real possibility that any action to move away from historical prices when using fixed price instruments would expose the Company to significant liability in the event prices fell.

Q. Switching to other matters, beginning on page 7 in his rebuttal testimony, Mr. Sommerer criticizes the RFP process because he claims that the Company generally did not implement it to purchase its supplies. Could you please comment?

A. Yes, Mr. Sommerer criticizes the process stating on page 7 lines 11-12, "Laclede accepted a few bids, **________** in terms of total capacity bid." The comparison to total capacity bid in discussing the number of bids accepted is not an accurate method to claim that the RFP was not implemented. The calculation resulting in the **____** number simply recognizes the fact that in generating bids to produce a market based representation of demand costs, the Company receives more total bids than it can purchase. This is a common occurrence under most RFP's and to suggest that the Company should receive bids for an amount only equal to what it can purchase is perplexing. Furthermore, Mr. Sommerer recognizes in his testimony that the actual level of gas purchased as a result of the RFP process was approximately **________________

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____** The GSIP's incentive feature appropriately rewards cost reductions below the established market level and penalizes purchases above the established level.

Q. How do you respond to Mr. Sommerer's statement on page 7, lines 14-15 that states, "by accepting the lower tier of bids, Laclede could lock in profits."

A. First, whenever duplicate, attractively priced bids are limited by available transportation capacity, the use of such bids will actually cause the benchmark to be established at a lower level than the representative market price. A number of the bids received by Laclede were, in fact, duplicative sources of supply that relied on the same transportation capacity. Also, the fact that the Company limits the total gas purchased from any one supplier to ensure reliability through diversity excludes other bids from consideration.

____ Again, this causes the demand benchmark average to be established at a level that is lower than the true market. It is this lower than true market benchmark level that the Company's performance was and is measured against. As a result of these factors, excluding only 10% of the highest bids is quite reasonable.

Q. Regarding the RFP process, Mr. Sommerer also states on page 7, lines 21-22 and page 8, lines 1-2 of his rebuttal testimony that "by simply **____**, the index would be known and nominations increased for supplies with pricing provisions less that the FOM benchmark. These kinds of savings are almost a mathematical certainty." Please respond.

A. Mr. Sommerer appears to be confused by the fact that the Company's temperature sensitive market prevents certain supplies from being scheduled until Laclede can assess its actual first-of-the-month gas supply requirements. This has not changed over the years. Contrary, to Mr. Sommerer's assertion, the GSIP's incentive works as intended and provides the Company the incentive to schedule its least expensive gas supplies. The fact that the Company can not determine its exact demand and supply requirements before the weather and pricing can be established has nothing to do with creating any type of mathematical certainty.

Transportation Discounts

Q. In regard to transportation savings achieved by the Company, do you agree with Mr. Sommerer's statement on page 8, lines 15-16 that "... the rates for the bulk of Laclede's discount claims under this mechanism were in effect prior to the inception of the GSIP."

A. This is another example of Mr. Sommerer's refusal to acknowledge any customer benefits from the efforts the Company has put forth in order to reduce costs. The fact is almost all of Laclede's transportation contracts at discounted rates were renegotiated within the past several years. Furthermore, through these negotiations and ongoing efforts, Laclede has been able to significantly reduce its overall transportation costs at the pipelines' expense. It seems unreasonable for Mr. Sommerer to ignore this fact. In order to show the impact of Laclede's negotiations, I have included Schedule 4, which provides the Company's annual transportation reservation costs before and after such negotiations. I have provided these costs for all of the Company's pipelines with the exception of MRT and MPC which have not been renegotiated for several years. As you can see, the Company has reduced these costs from approximately $21 million in Fiscal 1999 to approximately $13 million in Fiscal 2001.

Q. On page 8 of his testimony, Mr. Sommerer alleges that one of the "problems" with the firm transportation discount component of the GSIP is the Company's inclusion of savings associated with the Company's seasonal transportation arrangement. What does Mr. Sommerer mean by a seasonal transportation arrangement?

A. The Company has successfully negotiated several transportation contracts in which the Company only pays for the reservation of firm transportation capacity in those winter months when incremental firm capacity is needed to meet its customers' requirements during the coldest part of the year.

Q. What is significant about such an arrangement?

A. Typically, in order to obtain the firm winter time capacity required on an interstate pipeline a shipper, like the Company, must pay for and reserve such capacity on an annual basis, even though all of such capacity may not be needed by the shipper during the remainder of the year. Thus, when the Company negotiates a seasonal arrangement with a pipeline it has, in effect, achieved a discounted rate of zero for its wintertime only capacity requirements on the pipeline during the non-winter months.

Q. What evidence do you have that the Company's negotiation of seasonal arrangements is not the norm in the industry?

A. I have examined the contracting practices of all of the firm transportation only shippers of the two pipelines on which the Company has negotiated seasonal arrangements and have concluded that, contrary to Mr. Sommerer's belief, the Company's contracts are indicative of superlative performance.

Q. How did you reach such a conclusion?

A. Of the more than 240 firm transportation contracts on these pipelines where storage service is not included and which require the payment of reservation charges, only 12% are seasonal arrangements in which the shipper is entitled to winter capacity without having to pay for it on an annual basis. The Company holds seasonal contracts on both of these pipelines. For these reasons, Mr. Sommerer should not be permitted to trivialize the Company's efforts in this area.

Q. Please respond to Mr. Sommerer's statement on page 9, lines 2-4 of his rebuttal testimony regarding transportation discounts that "Laclede's share of savings is so significant that performance under this GSIP component would have to be significantly improved over historical levels for customers just to break even."

A. The fact that Laclede has achieved significant savings through developing and maintaining innovative and lower cost structures should not diminish the applicability of incentives. Due to the magnitude of savings achieved by the company, Mr. Sommerer appears unwilling to recognize the benefits to customers of the current structure. In Case No. GT-99-303 the Commission established a $13 million baseline level to measure superior performance. The baseline level represents the average level of transportation discounts achieved by other shippers on the pipelines on which Laclede holds firm transportation. It is this historic level which Laclede must exceed prior to sharing in savings. As a result of the Company's efforts, customers realize the first $13 million of savings before any sharing begins. Mr. Sommerer's idea for designing incentives involves adjusting the baseline until there is very small probability for the Company to achieve any share of the benefits, thus removing any real incentive.

Pipeline Mix

Q. On pages 9 and 10 of his rebuttal testimony, Mr. Sommerer seems to suggest that there is a mathematical problem in the Company's computation of transportation savings attributable to changes in the mix of pipeline services. Is Mr. Sommerer correct?

A. No, he is not. Mr. Sommerer apparently does not comprehend the interplay between the transportation discount and pipeline mix components of the Company's GSIP. Mr. Sommerer conveniently fails to acknowledge and consider in his calculation the benefits of the transportation discount that the Company originally negotiated.

Q. Please explain.

A. Using Mr. Sommerer's example assuming a maximum reservation rate of $10, if the Company had not negotiated a discount, its customers' annual transportation costs on a contract with a Maximum Daily Quantity ("MDQ") of 20,000 MMBtu/D would be approximately $2,400,000 ($10 x 20,000 x 12). Instead, the Company negotiated a $7 reservation fee discount from the pipeline. Assuming the Company has met the $13 million transportation discount baseline, after taking into consideration the 70/30 sharing of the transportation discount between its customers and the Company, the customers ultimately pay a transportation reservation rate of $5.10 (maximum rate minus 70% of the discount negotiated or $10 – 0.7 x $7) for a total annual cost of $1,224,000 ($5.10 x 20,000 x 12). Now, if the Company can eliminate the 20,000 MMBtu entirely in a subsequent period as Mr. Sommerer suggests, its customers also receive 70% of the benefits associated with reducing the remaining $3 reservation fee that was being paid to the pipeline. This provides an additional savings to the Company's customers of $504,000 ($3 x 0.7 x 20,000 x 12). Under this scenario, Laclede's customers pay a total annual cost of $720,000 ($1,224,000 - $504,000). Therefore, the Company's customers saved an additional $504,000 ($1,224,000 - $720,000) as a result of the pipeline mix component. Mr. Sommerer's analysis is misleading. Mr. Sommerer assumes that the customers are only paying a discounted transportation reservation fee of $3 instead of the $5.10 reservation fee that takes into account the appropriate 70/30 sharing of the transportation discount. So, when the Company subsequently reduces the 20,000 MMBtu per day of capacity, Mr. Sommerer incorrectly understates the customers' savings associated with the reduction of the capacity by $504,000 ([$5.10 - $3] x 20,000 x 12). Laclede's customers do and have benefited from the pipeline mix component.

Off-System Sales

Q. Do you agree with Mr. Sommerer's statements on pages 10 and 11 of his rebuttal testimony regarding off-system sales that, "Without this documentation, Laclede cannot reasonably assure that cheaper gas supplies are not being diverted from its customers to off-system sales." and "Laclede has no formal process in place to guarantee that off-system sales are being properly handled."?

A. No. Mr. Sommerer requested and received all of the information necessary to assess Laclede's performance in this area. Although I recognize what he received was voluminous, I submit this information is considerably less voluminous than the Cost of Gas Schedule ("CGS") which he is requesting. Furthermore, we have provided the information we use to make daily gas scheduling decisions. The CGS schedule is no longer required for this purpose and the Company sees no benefit in generating unnecessary documentation when Mr. Sommerer has not even attempted to use the less voluminous information to perform the same review function. Furthermore, Mr. Sommerer has totally ignored the fact that the Company informed Staff that it continues to use the same criteria to assign gas costs to off-system sales that the Staff endorsed and the Commission approved during the establishment of the initial GSIP. All Mr. Sommerer has to do is review those previous tariff sheets to obtain the Company's process of assigning gas costs to its off-system sales.

Q. Would the Company object to maintaining the CGS schedule in the future as Mr. Sommerer is suggesting?

A. No. As long as off-system sales are brought back into the GSIP as Staff is recommending, the Company would be willing to create and maintain the CGS schedule in the future.

Q. Staff suggests that the Company reduced the level of capacity that it released in favor of making off-system sales because the Company retains a greater percentage of the sharing under off-system sales. Is he correct?

A. No. Staff and Public Counsel's suggestions must be based on the sole fact that off-system sales revenues increased and capacity release revenues decreased in Fiscal 2000. The reduction in capacity release revenues was primarily a function of the reduced level of capacity held by the Company on NGPL and a reduction in the secondary market value for capacity on the pipelines through which Laclede typically releases capacity. On the other hand, during the same fiscal year, the Company had a very unusual year for off-system sales in that well-head prices significantly increased despite significantly warmer than normal weather. This was primarily a function of a significant decrease in supply at the well-head and the lack of gas in storage. In contrast, the off-system sales revenues that the Company has achieved this year will be right around the $900,000 level that was imputed in the Company's base rates. Indeed, they have declined far more significantly from last year, than has the Company's capacity release revenues. Nevertheless, to the extent there are any remaining concerns by Mr. Sommerer or anyone else regarding the effects of using different retention percentages, the Company's proposal in this case to equalize those percentages should address it.

<u>Experimental Fixed Price Protection Mechanism</u>

Q. Could you please respond to the criticism of the Experimental Fixed Price Protection ("EFPP") mechanism by both Staff and Public Counsel?

A. According to Staff and Public Counsel, the EFPP is too rigid and does not provide the type of flexibility that they believe is necessary. Furthermore, they apparently do not believe there is a sufficient chance that prices will actually fall to a level that would trigger the purchase of fixed prices in time to protect Laclede's customers from unwanted price exposure this winter.

Q. Do you agree with these criticisms?

A. I would agree that that is a possibility. The Commission should recognize, however, that in accordance with its Order in Case No. GO-2000-395 approving the one-year extension of the GSIP, the Company Staff, and Public Counsel had an obligation to work toward developing a multi-year fixed-price incentive plan. After several discussions, it was apparent that the parties were not going to be able to reach an agreement in the immediate future regarding a fixed-price trigger. Rather than let the lack of progress between the parties destroy any hope of implementing fixed prices in the future under reasonable terms, the Company filed its EFPP proposal with the Commission so that a proceeding and schedule could be established that would give the Commission sufficient time to hear and resolve any differences that the parties could not settle among themselves. In this environment, the EFPP was developed with two overriding considerations in mind. First, and foremost, the Company wanted to obtain fixed price protection for its customers while, at the same time, exercise caution so as to avoid entering into significant quantities of fixed price contracts when gas prices are at historically high levels. The Company did not, and does not, want its customers burdened with long term, high gas costs. As a result, the Company limited the volumes to which the EFPP would apply to approximately 30% of its requirements and incorporated a triggering mechanism in the EFPP that requires prices to decline for a period of time or to levels that would appear reasonable in light of the current environment. Second, the mechanism was designed to ensure that when prices were favorable, there would be no impediment to procuring such instruments. The EFPP therefore eliminates hindsight review for purchases that qualify under the mechanism.

Q. Are these considerations still valid?

A. Although the Company believes that the EFPP is a workable mechanism that could reduce costs for its customers, the Company is willing to replace it with one that will better ensure that at least a portion of its gas requirements are covered by such instruments this winter. Accordingly, for this winter only, the Company is willing to commit to covering at least 10 Bcf of its December, January and February requirements with fixed price instruments in the event it can do so below a $6.00 per for those months, and it is made clear that such purchases will not be subject to any prudence reviews relating to the use of such instruments. By the same token, there would be no incentives applicable to such purchases.

Q. Does the Company propose that such a structure also be used in the future?

A. No. This proposal is being made due to the time constraint that will exist between the time the Commission issues its decision in this case and when such instruments would have to be purchased. For next winter and beyond, the Company is willing to adopt a fixed price mechanism that more closely resembles Public Counsel's proposed fix price incentive.

Q. Could you please explain this fixed price incentive?

A. Yes. Under this mechanism, the Company will remove the commodity benchmark comparison of the gas procurement component of the GSIP. In its place, the Company will have the incentive to purchase fixed price instruments. The Company will share 10% of any gains or losses associated with the purchase of such fixed price instruments up to a total loss of $1 million. Furthermore, the Company will be required to purchase between 10 Bcf and 25 Bcf of its flowing winter supplies under fixed price contracts. All purchase and holding costs incurred by the Company for such fixed price contracts are to be recovered from its customers through the Company's PGA. As a result of the equal sharing of gains and losses provided under the incentive, no prudence disallowance shall occur with regard to the fixed price contracts purchased by the Company. Any share of gains achieved by the Company will be included in the Company's $10 million overall cap under the GSIP.

Q. What type of instruments can the Company use to fix the price of its supply?

A. The Company can use NYMEX futures, OTC contracts, or physical supply contracts that contain a fixed price provision.

Q. How will the gains or losses be measured?

A. In the case of NYMEX and OTC contracts, gains or losses will be measured as the difference between the price paid and the price sold for such contracts. In the case of physical supply contracts, gains or losses will be measured as the difference between the fixed price associated with the commodity, excluding any premiums necessary to reserve such firm supply, and the index price applicable to the location of delivery.

Q. What index price will be used for physical supply contracts?

A. The index that will be used is the applicable monthly contract index as published in Inside FERC's Gas Market Report. If this index is unavailable, the applicable monthly contract index for Gas Daily will be used. If both indices are unavailable, the applicable monthly contract index for Natural Gas Intelligence will be used.

REBUTTAL OF OFFICE OF PUBLIC COUNSEL

Q. Please comment on Mr. Busch's statement on page 9, lines 20-22 that, "The design of the experimental GSIP does not properly align ratepayer and Company interests, instead it has produced a situation where excess profits are pursued over ratepayer savings."

A. The level of benefits received by the ratepayers far exceed those retained by the Company. Further, as discussed by Company witness Neises and Buck, the characterization that the Company has received excess profits over the period of the Company's GSIP is totally baseless.

Q. Please respond to Mr. Busch's statement regarding new pipelines on page 15, lines 21-23 and page 16, lines 1-2 that states, "there have been pipelines over the past few years that have made proposals to Laclede to increase pipeline capacity to the St. Louis area. When more competitors enter the transportation market in St. Louis, the ability to receive discounts on the new capacity or receive discounts on current capacity increases."

A. Typically, pipelines do not build or construct new capacity so that they can undercollect their cost of service on such capacity. Furthermore, any project that may occur would be far in the distant future since projects of this magnitude require substantial lead-time and no such project is currently under construction. However, if the Company can optimize its resources in a manner that can enable it to reduce overall transportation costs by facilitating the construction of a new pipeline, it should have the incentive to do so. If the Company is able to reduce overall transportation costs under the incentive program, the Company's customers benefit.

Q. Please discuss Mr. Busch's statement regarding capacity release and off-system sales on page 18, lines 9-12 that, "off-system sales can not be made unless there is excess capacity available; Laclede has had the incentive to increase off-system sales at the expense of capacity release."

A. Mr. Busch has confused capacity that is available from time to time due to Laclede's temperature sensitive load with excess capacity. As to any incentive to favor sales over capacity release, no party has shown any evidence of this occurring either in the past or in this case. The Company continues to assign gas costs to off-system sales in the same manner it has done in the past. As I have previously stated in my testimony, the reduction in capacity release revenues was primarily a function of the reduced level of capacity held by the Company on NGPL and a reduction in the secondary market value for capacity on the pipelines which Laclede typically releases capacity. Furthermore, this is a curious position for Public Counsel to take since it was their position in Case No. GT-99-303 to take off-system sales out of the Company's incentive plan.

Q. Do you agree with Ms. Meisenheimer that the Gas Procurement mechanisms have been ineffective in reducing gas costs?

A. No. As I have discussed in my testimony, the Company has generated at least $26.3 million in gas procurement savings as a result of the GSIP. Furthermore, the Company does not rely solely on the GSIP to provide meaningful price protection for its customers. The Company relies on a combination of the fixed price mechanism of the GSIP along with its Price Stabilization Program to provide meaningful protection. Furthermore, the Price Stabilization Program contributed significantly this year by reducing gas costs by approximately $20 million and could have contributed significantly greater benefits if both Staff and Office of Public Counsel had not opposed the Company's request in July 2000 to increase the Maximum Recoverable Amount under its Price Stabilization Program from $4 to $10 million.

Q. Could you please respond to Ms. Meisenheimer's speculation beginning on page 9 as to why the Company chose not to use the fixed price mechanism of the GSIP to fix gas costs?

A. Ms. Meisenheimer indicates that Laclede has repeatedly suggested that it views the threat of prudence review as the reason not to purchase under fixed price contracts. She then suggests that there would be no opportunity to profit from pursuing a fixed price strategy. Ms. Meisenheimer is incorrect. Even if prices did not reach the five-year historical average, the Company had the ability to profit using fixed prices under the procurement component of the GSIP. However, a severe price decline after the Company fixed prices could result in a prudence challenge, the results of which could seriously impact the financial viability of the Company. Ms. Meisenheimer's suggestion that the Company did not fix prices because it had no opportunity to profit is incorrect.

Q. Could you please respond to Ms. Meisenheimer's statement on page 8 line 23 that "Recent natural gas price increases demonstrate that consumers would have been best served by a procurement strategy that included purchasing a reasonable measure of fixed price contracts"?

A. This type of statement is just another example of hindsight review. One could also make the statement, "Recent natural gas price increases demonstrate that consumers would have been best served by a procurement strategy that included authorization for $10 million on options instead of $4 million". Conversely, had the Company fixed prices and they had subsequently declined instead of increasing, one could make the statement "Recent natural gas price decreases demonstrate that consumers would have been best served by a procurement strategy that did not include purchasing any fixed price contracts". Ms. Meisenheimer's position regarding the compatibility of the fixed price mechanism ignores the facts as to why fixed prices above a five year historical average were not considered or implemented and her suggestion that the Company did not fix prices because the Company could not profit when they were above the five year average is incorrect.

Q. Could you please respond to Ms. Meisenheimer's criticism regarding the assumptions of your estimate of savings of the EFPP over the Fiscal years 1993-2000?

A. Although as Mr. Neises explains in his surrebuttal testimony, the Company is willing to replace the EFPP mechanism with an alternative fixed price mechanism I feel it is necessary to explain the assumptions upon which my estimate were based. Ms. Meisenheimer criticizes my estimate because the second condition of the EFPP could not have been met until August 1993 yet I assumed fixed prices would have been purchased in March 1992 for September 1992. Because NYMEX data did not exist prior to August 1990, I used all of the monthly data that existed to compute the average of the previous strips until there were at least 12 months of historical data. In March 1992 when prices were fixed for September 1992, the current strip was below the average of the previous data for 16 straight months. Since this was sufficiently greater than the 12 times required to meet the second condition of the EFPP, I assumed it appropriate for the mechanism to fix prices in March 1992 and believe the estimate to be reasonable.

Q. Ms. Meisenheimer also points out that the third condition of the EFPP would have prevented the mechanism from triggering in all but two of the months. Is this a problem?

A. Not really. The third condition was added so that the Company had a reasonable opportunity to lock in the fixed prices through the NYMEX in order to guarantee the fixed price at the first of the month price. This condition could be easily eliminated as long as the Company was given the ability to pass on 100% of the gains or losses associated with the purchase of such NYMEX contracts.

Q. Assuming the third condition is eliminated, is your estimate accurate?

A. Yes. The savings produced under the EFPP mechanism would be approximately $49 million.

Q. Does this complete your testimony?

A. Yes, it does.

SCHEDULE 1

THIS ENTIRE SCHEDULE IS HIGHLY CONFIDENTIAL

SCHEDULE 2

THIS ENTIRE SCHEDULE IS HIGHLY CONFIDENTIAL

SCHEDULE 3

THIS ENTIRE SCHEDULE IS HIGHLY CONFIDENTIAL

SCHEDULE 4

THIS ENTIRE SCHEDULE IS HIGHLY CONFIDENTIAL