

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

Exhibit No. 5
Date 6/18/01 Case No. GT-2001-329
Reporter Kerr

**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.

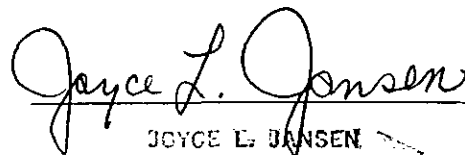
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony, consisting of pages 1 to 28, and Schedule Nos. 1 to 4, inclusive.

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 E. Jaskowiak

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



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

1 **SURREBUTTAL TESTIMONY OF SCOTT E. JASKOWIAK**

2

3 Q. Please state your name and address.

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

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

8 A. Yes, I am.

9 **PURPOSE OF TESTIMONY**

10 Q. What is the purpose of your surrebuttal testimony?

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

18 **GENERAL RESPONSE**

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

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

1 \$45 million in savings and revenues that would not have been available for sharing with
2 the Company's customers absent the GSIP and the Company's superior performance
3 thereunder -- an amount that far exceeded what the Company was permitted to retain
4 under the program. Having considered all of the competent and substantial evidence
5 upon the entire record, the Commission found that the GSIP, as modified by the
6 Commission, was in the public interest. Despite all of this evidence proving that the
7 GSIP worked in the manner intended by the Commission, both Staff and Public Counsel
8 have characterized the GSIP mostly in terms of the earnings retained by the Company
9 under the Plan and have simply ignored these savings. In fact, they even suggest that
10 such savings are either non-existent or would have been achieved without the GSIP,
11 thereby implying that the earnings retained by the Company under the Plan have come at
12 the expense of Laclede's customers.

13 Q. Are these assertions valid?

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

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

21 A. Yes. Although there are many such examples, one of the most notable can be found at
22 page 6 of the rebuttal testimony submitted by Public Counsel witness James Busch.
23 Beginning on line 5, Mr. Busch asserts that "the claimed reductions [under the GSIP]
24 could have been accomplished without an incentive mechanism in place." In fact, he

1 asserts that "the activities that Laclede has engaged in since the advent of its incentive
2 plan are basically the same activities that it was performing prior to the experimental
3 GSIP." Moreover, he goes on to suggest that Public Counsel's testimony in Case No.
4 GT-99-303 demonstrated that "Laclede has not incorporated any innovative methods for
5 procuring natural gas at lower prices for its ratepayers." He therefore concludes that the
6 Company "should not be rewarded for doing business as usual."

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

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

17 _____
18 _____ ** Through these strategies and the ** _____
19 _____ **, the Company was able to
20 generate significant supply procurement savings.

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

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

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

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

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

22 A. Yes. As also shown on Schedule 1, the additional savings and revenues achieved by the
23 Company under the GSIP have continued to grow, amounting to some \$19.3 million in
24 fiscal year 2000 alone. When combined with the \$45 million savings achieved during the

1 first three years, this translates into an overall net benefit level of over \$64 million for the
2 four years of the GSIP ending last September.

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

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

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

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

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

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

12 Q. Why is this significant?

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

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

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

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

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

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

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

15 Q. Please continue.

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

18 _____

19 _____

20 _____

21 _____ **

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

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

22 Another initiative that was thoroughly discussed in my testimony in Case No. GT-
23 99-303, relates to the Company's successful effort to minimize inefficiencies associated
24 with its pipeline resources. As a result of this initiative, the Company determined that the

1 under-utilized capacity associated with MRT's Flexible Contract Demand could be better
2 utilized through the elimination of such service. Since MRT's firm shippers were
3 essentially paying for the under-utilized capacity through straight-fixed variable rate
4 design, the Company aggressively pursued having MRT eliminate such service and
5 allocate such capacity to the shippers who pay for the capacity anyway. As a result of
6 these efforts, the Company was allocated, without any overall increase in costs, an
7 additional 12,480 MMBtu per day of contract demand, which it then released for
8 approximately \$1.1 million in incremental revenue through the Company's most recent
9 fiscal period ending September 2000.

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

11 A. Yes, as discussed in my testimony in Case No. GT-99-303, the Company generated
12 approximately \$4.8 million in off-system sales revenues that would have otherwise gone
13 entirely to the Company's shareholders. Also, as result of Case No. GT-99-303, a new
14 component, Pipeline Mix, was added to the GSIP that provides the Company an incentive
15 to reduce overall costs through the optimization of its transportation alternatives. As a
16 result, the Company modified its upstream transportation mix and reduced transportation
17 costs by another \$1.9 million. Finally, the transportation discount savings of \$28.9
18 million in Schedule 1 represents the Company's successful efforts to negotiate pipeline
19 discounts at levels greater than that established by the Commission in Case No. GT-99-
20 303 which represented the average level of discounts achieved by other buyers of
21 capacity on the same pipeline systems.

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

23 A. Contrary to Mr. Busch's claim in his rebuttal testimony, as well as the assertions made by
24 other witnesses for Staff and Public Counsel, it is clear that the GSIP, and the Company's

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

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

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

1 again, Mr. Neises discusses the significance of these analyses as they relate to the issues
2 in this case.

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

5 A. Yes.

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

7 A. Yes. Schedule 3 quantifies the impact of the Company's proposed modifications to the
8 GSIP by showing what impact they would have had if they had been in effect during for
9 the Company's most recently completed fiscal year from October 1999 through
10 September 2000. Had such modifications been in effect during this period,
11 approximately \$1.0 million of additional funding would have been made available for
12 low income energy assistance. In addition, the Company would have received
13 approximately \$4.0 million less than it actually retained under the existing GSIP, and all
14 of the Company's customers would have received the difference equal to an additional
15 \$3.0 million of benefits above those actually received under the existing GSIP.

16 **REBUTTAL OF STAFF**

17 **Gas Procurement**

18 Q. Do you agree with Mr. Sommerer's statement and explanation beginning on page 6 line
19 13 of his testimony that the index concept is flawed and that an index-based benchmark
20 encourages the Company not to use fixed price contracts?

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

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

3 A. As Mr. Neises discusses in his surrebuttal testimony, while the existing GSIP has an
4 incentive feature for the Company to lock in fixed prices in the event prices fell below the
5 five-year historical average, it was not the only fixed price incentive proposal presented
6 in Case No. GT-99-303 that emphasized the use of historical averages. To the contrary,
7 in Case No. GT-99-303 Staff apparently felt strong enough about the need to use
8 historical averages for purposes of fixing prices that it proposed the use of a five-year
9 historical average to fix a rate for Laclede. Based on market conditions that existed at the
10 time, Staff's proposal would have cost Laclede over \$50 million to guarantee such rate.
11 In addition, the following year when Staff entered into an incentive plan agreement with
12 Missouri Gas Energy ("MGE") it once again supported the use of historical averages to
13 determine the trigger price at which fixed rate would be implemented. Notably, this
14 historically-derived trigger price was used when the NYMEX strip was approximately
15 \$3.15 per MMBtu, or \$0.90 per MMBtu higher than the trigger price agreed to by the
16 parties. Despite subsequent increases in market prices and subsequent efforts by MGE to
17 negotiate a more market responsive target, the parties were never able to agree on a
18 trigger price above the historically derived price.

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

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

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

3 Q. Was this request granted?

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

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

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

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

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

14 _____
15 _____
16 _____ ** The GSIP's
17 incentive feature appropriately rewards cost reductions below the established market
18 level and penalizes purchases above the established level.

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

21 A. First, whenever duplicate, attractively priced bids are limited by available transportation
22 capacity, the use of such bids will actually cause the benchmark to be established at a
23 lower level than the representative market price. A number of the bids received by
24 Laclede were, in fact, duplicative sources of supply that relied on the same transportation

1 capacity. Also, the fact that the Company limits the total gas purchased from any one
2 supplier to ensure reliability through diversity excludes other bids from consideration.

3 ** _____
4 _____
5 _____

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

11 Q. Regarding the RFP process, Mr. Sommerer also states on page 7, lines 21-22 and page 8,
12 lines 1-2 of his rebuttal testimony that "by simply ** _____

13 _____ **, the index would be known
14 and nominations increased for supplies with pricing provisions less than the FOM
15 benchmark. These kinds of savings are almost a mathematical certainty." Please
16 respond.

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

Transportation Discounts

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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.

1 Q. What is significant about such an arrangement?

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

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

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

14 Q. How did you reach such a conclusion?

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

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

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

13 **Pipeline Mix**

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

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

21 Q. Please explain.

22 A. Using Mr. Sommerer's example assuming a maximum reservation rate of \$10, if the
23 Company had not negotiated a discount, its customers' annual transportation costs on a
24 contract with a Maximum Daily Quantity ("MDQ") of 20,000 MMBtu/D would be

1 approximately \$2,400,000 ($\$10 \times 20,000 \times 12$). Instead, the Company negotiated a \$7
2 reservation fee discount from the pipeline. Assuming the Company has met the \$13
3 million transportation discount baseline, after taking into consideration the 70/30 sharing
4 of the transportation discount between its customers and the Company, the customers
5 ultimately pay a transportation reservation rate of \$5.10 (maximum rate minus 70% of the
6 discount negotiated or $\$10 - 0.7 \times \7) for a total annual cost of \$1,224,000 ($\$5.10 \times$
7 $20,000 \times 12$). Now, if the Company can eliminate the 20,000 MMBtu entirely in a
8 subsequent period as Mr. Sommerer suggests, its customers also receive 70% of the
9 benefits associated with reducing the remaining \$3 reservation fee that was being paid to
10 the pipeline. This provides an additional savings to the Company's customers of
11 \$504,000 ($\$3 \times 0.7 \times 20,000 \times 12$). Under this scenario, Laclede's customers pay a total
12 annual cost of \$720,000 ($\$1,224,000 - \$504,000$). Therefore, the Company's customers
13 saved an additional \$504,000 ($\$1,224,000 - \$720,000$) as a result of the pipeline mix
14 component. Mr. Sommerer's analysis is misleading. Mr. Sommerer assumes that the
15 customers are only paying a discounted transportation reservation fee of \$3 instead of the
16 \$5.10 reservation fee that takes into account the appropriate 70/30 sharing of the
17 transportation discount. So, when the Company subsequently reduces the 20,000 MMBtu
18 per day of capacity, Mr. Sommerer incorrectly understates the customers' savings
19 associated with the reduction of the capacity by \$504,000 ($[\$5.10 - \$3] \times 20,000 \times 12$).
20 Laclede's customers do and have benefited from the pipeline mix component.

21 Off-System Sales

22 Q. Do you agree with Mr. Sommerer's statements on pages 10 and 11 of his rebuttal
23 testimony regarding off-system sales that, "Without this documentation, Laclede cannot
24 reasonably assure that cheaper gas supplies are not being diverted from its customers to

1 off-system sales." and "Laclede has no formal process in place to guarantee that off-
2 system sales are being properly handled."?

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

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

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

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

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

16 **Experimental Fixed Price Protection Mechanism**

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

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

24 Q. Do you agree with these criticisms?

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

23 Q. Are these considerations still valid?

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

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

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

16 Q. Could you please explain this fixed price incentive?

17 A. Yes. Under this mechanism, the Company will remove the commodity benchmark
18 comparison of the gas procurement component of the GSIP. In its place, the Company
19 will have the incentive to purchase fixed price instruments. The Company will share
20 10% of any gains or losses associated with the purchase of such fixed price instruments
21 up to a total loss of \$1 million. Furthermore, the Company will be required to purchase
22 between 10 Bcf and 25 Bcf of its flowing winter supplies under fixed price contracts. All
23 purchase and holding costs incurred by the Company for such fixed price contracts are to
24 be recovered from its customers through the Company's PGA. As a result of the equal

1 sharing of gains and losses provided under the incentive, no prudence disallowance shall
2 occur with regard to the fixed price contracts purchased by the Company. Any share of
3 gains achieved by the Company will be included in the Company's \$10 million overall
4 cap under the GSIP.

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

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

8 Q. How will the gains or losses be measured?

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

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

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

19 **REBUTTAL OF OFFICE OF PUBLIC COUNSEL**

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

23 A. The level of benefits received by the ratepayers far exceed those retained by the
24 Company. Further, as discussed by Company witness Neises and Buck, the

1 characterization that the Company has received excess profits over the period of the
2 Company's GSIP is totally baseless.

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

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

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

20 A. Mr. Busch has confused capacity that is available from time to time due to Laclede's
21 temperature sensitive load with excess capacity. As to any incentive to favor sales over
22 capacity release, no party has shown any evidence of this occurring either in the past or in
23 this case. The Company continues to assign gas costs to off-system sales in the same
24 manner it has done in the past. As I have previously stated in my testimony, the

1 reduction in capacity release revenues was primarily a function of the reduced level of
2 capacity held by the Company on NGPL and a reduction in the secondary market value
3 for capacity on the pipelines which Laclede typically releases capacity. Furthermore, this
4 is a curious position for Public Counsel to take since it was their position in Case No.
5 GT-99-303 to take off-system sales out of the Company's incentive plan.

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

8 A. No. As I have discussed in my testimony, the Company has generated at least \$26.3
9 million in gas procurement savings as a result of the GSIP. Furthermore, the Company
10 does not rely solely on the GSIP to provide meaningful price protection for its customers.
11 The Company relies on a combination of the fixed price mechanism of the GSIP along
12 with its Price Stabilization Program to provide meaningful protection. Furthermore, the
13 Price Stabilization Program contributed significantly this year by reducing gas costs by
14 approximately \$20 million and could have contributed significantly greater benefits if
15 both Staff and Office of Public Counsel had not opposed the Company's request in July
16 2000 to increase the Maximum Recoverable Amount under its Price Stabilization
17 Program from \$4 to \$10 million.

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

21 A. Ms. Meisenheimer indicates that Laclede has repeatedly suggested that it views the threat
22 of prudence review as the reason not to purchase under fixed price contracts. She then
23 suggests that there would be no opportunity to profit from pursuing a fixed price strategy.
24 Ms. Meisenheimer is incorrect. Even if prices did not reach the five-year historical

1 average, the Company had the ability to profit using fixed prices under the procurement
2 component of the GSIP. However, a severe price decline after the Company fixed prices
3 could result in a prudence challenge, the results of which could seriously impact the
4 financial viability of the Company. Ms. Meisenheimer's suggestion that the Company
5 did not fix prices because it had no opportunity to profit is incorrect.

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

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

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

1 A. Although as Mr. Neises explains in his surrebuttal testimony, the Company is willing to
2 replace the EFPP mechanism with an alternative fixed price mechanism I feel it is
3 necessary to explain the assumptions upon which my estimate were based. Ms.
4 Meisenheimer criticizes my estimate because the second condition of the EFPP could not
5 have been met until August 1993 yet I assumed fixed prices would have been purchased
6 in March 1992 for September 1992. Because NYMEX data did not exist prior to August
7 1990, I used all of the monthly data that existed to compute the average of the previous
8 strips until there were at least 12 months of historical data. In March 1992 when prices
9 were fixed for September 1992, the current strip was below the average of the previous
10 data for 16 straight months. Since this was sufficiently greater than the 12 times required
11 to meet the second condition of the EFPP, I assumed it appropriate for the mechanism to
12 fix prices in March 1992 and believe the estimate to be reasonable.

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

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

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

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

23 Q. Does this complete your testimony?

24 A. Yes, it does.

SCHEDULE 1

THIS ENTIRE SCHEDULE IS HIGHLY CONFIDENTIAL

SCHEDULE 2

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SCHEDULE 3

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SCHEDULE 4

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