STATE OF MISSOURI

PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS
In-Camera Testimony
August 10, 1998
Jefferson City, Missouri
Volume 2

In the Matter of Laclede Gas)
Company's Tariff Sheets Designed) CASE GO-98-484
to Extend for an Additional)
Period the Experimental Price)
Stabilization Fund.)

LEWIS R. MILLS, Presiding
REGULATORY LAW JUDGE
VICKY RUTH,
REGULATORY LAW JUDGE
M. DIANNE DRAINER,
CONNIE MURRAY,
HAROLD CRUMPTON,
ROBERT SCHEMENAUR,
COMMISSIONERS.

REPORTED BY:

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Exhibit No. 11
Date 6-21-01 Case No GT-2001-329
Reporter KF

normal winter volumes requirement for mandated price protection in the existing program was developed?

A. That number was also based upon discussions with at least two or three of the LDCs involved in the program, at least a negotiated number. The logic behind the number was to try and get the lion's share of the flowing supply during what was considered the winter months, November through March covered.

Q. So there was a general intent to get a significant portion of those volumes covered but not their entirety?

A. That's correct.

Q. And can you tell me, if you recall, what kind of specific at risk assessments were done to determine whether 70 percent was okay versus 75 percent or 80 percent in balancing the risk and potential benefit to the ratepayer when that number was developed?

A. The only assessment, quantitative assessment, that I can recall was some discussion. And I think some faxes passed back and forth to try and get a handle on what a warmer than normal winter would be. And my recollection was that was

around 10 percent.

And the Staff did not want to get into a situation where you would have a warmer than normal winter which could be perhaps 90 percent of the flowing supply, where the LDC had shopped for a normal winter and fully covered its normal supplies and been, in essence, overhedged, had coverage for gas that it didn't -- it wasn't buying in the market.

But there was some subjectivity to that as well. I would say an additional consideration was the cost. We looked at the per customer per year cost, the percentage that the total premium would be of gas cost and tried to keep it at a relatively low number.

Q. So there were a number of factors that were taken into consideration. And I guess my question is, was there some sort of detailed risk assessment performed by the Staff to develop that number?

A. No, there was not.

Q. And under the prior program before it was reauthorized by the Commission I believe in May of this year there was I believe a strike price range of 280 to 320 which was adjustable based on changes

in the market; is that correct?

A. That's correct.

Q. Can you tell me how that specific price strike range was established?

A. Again, I believe the way that the spreadsheet was set up, we first looked at target numbers and given a certain market condition how many options would it take to cover using $4 million; $4 million being approximately 1 percent of Laclede's gas cost, one and a half percent if you just look at the raw gas cost without none gas cost.

So I think, in essence, you were trying to put together certain variables, trying to cover 70 percent of the flowing, 70 percent of flowing was a given. That's a number that you have to start out with.

You look at the option prices for various strikes, and I think two or three strike prices were calculated. You might get costs of $3 million, $4 million and $5 million. And that's why a range was set out. We thought that somewhere in that range you could get close to the $4 million level.

Q. Well, I guess on a broader level then what

kind of risk assessment was performed to determine that it was appropriate from a risk benefit standpoint for the ratepayer to spend approximately $4 million on strike prices between 280 and 320 on 70 percent of the volumes?

I mean, how did that specific amount, if you will, of factors, get determined? What kind of study was done to justify that?

A. Well, I think generally -- and there wasn't a detailed risk assessment performed, but generally at that time we were looking at where the index price could go and we've always done this.

We know with almost ten years of NYMEX history that the index or the futures contract price can settle at a certain low and it's made it up to a certain maximum high. We also know from looking at the LDC gas supply contracts what the range has been.

And we had the experience of the winter of '96, '97 where you had a lot of complaints, certain LDCs had a lot of complaints. We certainly had a lot of concern from the legislature. We had a lot of concern from the media.

And these were at prices of around $4. And so that was another signal that we had to

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recognize the gas supply contracts didn't have an adherent limitation which contracts with the producers just referred to in index but you didn't know what the price was going to be later. It was going to be set maybe nine months down the road.
And so it certainly made sense to put some cap on it and there is a lot of judgment that goes into where that cap needs to be set. We believed $4 million was a reasonable level. It was a reasonable cost to be set. And back when we were looking at the market that could have gotten you in at strike prices of anywhere from 280 to 320.
However, I think we recognized that the prices could be higher and we weren't unwilling to have them open end on the $4 million cost so we allowed the Company the discretion really to adjust that strike price no further than what you could buy $4 million for.
Q. Yeah. And I appreciate that explanation. And would you agree with me that having given that a lot of features of the existing program were developed based on, you know, reasonable judgment decisions based on prior experience as opposed to just sitting down and reading a lot of -- or preparing a lot of studies and a lot of risk

assessments and that type of thing?
A. I would agree with that. It was based upon market experience and the experience that we've had in looking at the LDCs portfolio.
Q. And would the same thing generally be true about the $4 ceiling that's included in the existing program?
A. I think generally you could say the same thing about the $4 strike if you're saying that that's based upon judgment and using market experience, yes.
Q. I'd like to ask you just a couple of questions if I could about your experience with the natural gas futures and options market. And how would you characterize your experience either reviewing or participating in those markets?
A. It's been an oversight of various transactions. It's more of a review role.
Q. And have you ever purchased or sold a natural gas futures contract or option?
A. No.
Q. Have you seen one in the process of being purchased and sold?
A. No. Well, no. I have to restate that. I have not physically been in the trading pit nor

have I made any trades. I'm not a broker, but I would say that we visit the Kansas City Board of Trade and we've seen the contracts being bought and sold.
We've -- you know, reviewed over the Internet the opening of the electric futures contracts, so we've seen the trading in the pit there as well. So, you know, we've witnessed -- the Staff has witnessed the activity of buying and selling the market, but I haven't personally been involved in those transactions.
Q. Do you try and follow the NYMEX market on a daily basis?
A. I can't say that I know on a daily basis what the price is, but I would say 90 percent of the time.
Q. And in total how much time would you spend being involved in one way or another with the natural gas financial instruments?
A. The total time, if you use that to include working on the hedging proposals, reviewing the programs, taking a look at the various data request that have been put out for the three LDCs it's a significant amount of time, I'd say probably 25 percent.

Q. Okay. Turning to your rebuttal testimony on page 8, line 5 you cite what you believe is a lack of specificity and clarity in the Company's proposed plan. And then on line 9 you go on to criticize the Company for failing to provide numerical examples.
And I think you've also said elsewhere in your testimony the Company's proposal is vague. Have you -- did you review Mr. Busch's examples of how the proposal of the Company could potentially operate under various kinds of scenarios?
A. Yes.
Q. When Mr. Busch gave those examples at the various calculations do you think he had a incomplete and faulty understanding of the Company's proposal?
A. No, I do not.
Q. And you've had an opportunity to review the surrebuttal testimony of Mr. Jaskowiak and the surrebuttal testimony of the other Company witnesses?
A. Yes.
Q. And have you had an opportunity to review the various schedules in which -- in response to Staff's concerns Mr. Jaskowiak has tried to

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