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EFPP Review
Witness: David M. Sommerer
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GT-2001-329

Jefferson City, Missouri
May 2001

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

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Exhibit No. 17
Date 6/18/01 Case No. GT-2001-329
Reporter KBR

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GT-2001-329

Q. Please state your name and business address.

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

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

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

Q. How long have you been employed with the Commission?

A. Approximately 16 years.

Q. Please describe your educational background and experience.

A. In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. Upon graduation, I accepted employment with the Commission.

Q. What has been the nature of your duties at the Commission?

A. From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the State of Missouri. In 1988 the

responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department. I assumed responsibility for planning and implementing these audits and trained available Staff on the requirements and conduct of the audits. I participated in most of the ACA audits from early 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy Department. Until November of 1993, my duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased Gas Adjustment reviews, and tariff reviews as part of a rate case. In November of 1993, I assumed my present duties of managing a newly created department called the Procurement Analysis Department. This Department was created to more fully address the emerging changes in the gas industry especially as they impacted the utilities' recovery of gas costs. My duties have included managing the five member staff, reviewing ACA audits and recommendations, participating in the gas integrated resource planning project, serving on the gas project team, and participating in matters relating to natural gas service in the State of Missouri.

Q. Have you previously testified before this Commission?

A. Yes. A list of cases in which I have filed testimony is included as **Schedule 1** of my testimony.

Q. What is the purpose of your testimony in this case?

A. To rebut the testimony of Laclede Gas Company (Laclede or Company) witnesses Kenneth Neises and Scott Jaskowiak. I will also be discussing the historical operation of the GSIP. In addition, I will discuss serious design flaws in the GSIP and provide suggestions on fixing them.

Q. Could you provide a general overview of your testimony?

A. Yes. The Company has characterized the Gas Supply Incentive Plan (GSIP) as a success. My testimony will focus on the operation of the Company's existing plan. It is this plan that the Company, in the main, wishes to extend.

Q. Please describe the original GSIP.

A. The original GSIP was approved as part of a rate case settlement in Laclede Case No. GR-96-193. The original term was for 3 years starting October 1, 1996. Fiscal years were used to quantify savings from the GSIP. Therefore, the first three years included the 12 months ended September 1996-1997, 1997-1998, 1998-1999. The Commission subsequently extended the GSIP for one year (1999-2000) in Case No. GT-99-303. This extension included a few modifications to be discussed later. Finally, the GSIP was extended in Case No. GO-2000-395 for an additional year, the 12 months ending September 30, 2001, by a Stipulation and Agreement approved by the Commission.

Q. Please describe the various components of the original GSIP.

A. The original GSIP had four components. The first related to gas commodity costs and associated premiums. A monthly gas supply index was used as a benchmark to compare Laclede's actual procurement costs. A percentage was added to this monthly index to reflect historical costs (premiums) paid by Laclede over and above the index price.

The second component of the original GSIP compared Federal Energy Regulatory Commission (FERC) rates to certain discounted rates paid by Laclede to its pipeline suppliers. The calculation under this mechanism was designed to allow 10% to 20%

sharing for the Company of firm transportation discounts achieved from FERC maximum rates.

A third component allowed the Company to share in capacity release credits based upon a predetermined sharing grid. Capacity release involves the temporary release of idle capacity and the receipt of a credit from the interstate pipeline.

The fourth component allowed the Company to share in the profits of off-system sales as long as the sales were not detrimental to on-system customers. Off-system sales involve the sale of gas supply outside of the Company's service territory.

Q. Please describe the GSIP as modified by the Commission's Order in Case No. GT-99-303.

A. The Commission approved four changes to the GSIP:

- The modified GSIP added the concept of using a Request for Proposal (RFP) to develop the premium to be added to the benchmark gas procurement index. The RFP was to be based upon an inquiry of various suppliers to submit bids for types of gas supply service Laclede might need.
- The second modification added a "pipeline mix" proposal where Laclede would compare some historical level of pipeline services to an existing level to determine sharing amounts.
- A third modification added a fixed price feature, the Fixed Price Component, to the original gas procurement grid. This feature contained various triggers to incorporate fixed price contracts into the gas supply mix.

- For firm pipeline discounts, a baseline was approved at $13,000,000 while Laclede's sharing percentage was increased to 30% for discounts over the baseline.
- Finally, off-system sales sharing was removed from the GSIP and placed in Laclede's general rate case.

Q. Please describe the most recent modifications under Case No. GO-2000-395.

A. The parties agreed to, and the Commission approved, the following changes:

- The GSIP from Case No. GT-99-303 was approved for one additional year ending September 30, 2001.
- An overall earnings cap of $9,000,000 was placed on the entire GSIP and the maximum level of savings retained by Laclede under the gas procurement section of the GSIP II (Section D.1.c) was not to exceed $5.3 million.
- The issue of a possible new contract for pipeline transportation service between Laclede and Mississippi River Transmission Corporation was addressed by limiting discount claims.
- Finally, the parties agreed to good faith negotiations to attempt to implement a mandatory fixed rate trigger for gas supply commodity costs, on the understanding that the overall objective would be to develop a mutually acceptable and workable multi-year incentive program.

Q. Please describe in greater detail each of the historical GSIP components, how they function, and the amount of profit that they have generated each year.

A. **Schedule 2** lists the GSIP components and Laclede's profits from each. As can be seen from this schedule, the profits of Laclede from the GSIP have always exceeded 5.4 million annually and have averaged over 7 million over the first 4 years of GSIP. When off-system sales profits are included, the most recent fiscal year netted GSIP earnings of approximately 9.6 million.

Q. Please describe the gas supply component.

A. The gas procurement mechanism defines a benchmark gas supply cost to compare to the Company's gas supply procurement efforts. The benchmark weights first-of-the-month indices for "Reliant Gas Transmission – East" and "Trunkline-Louisiana" by 60% and 40% respectively. To this commodity cost benchmark a demand cost benchmark is developed using an RFP process. Both the index concept and the RFP process are seriously flawed.

Q. Why is the index concept flawed?

A. Price indices are volatile and as seen last winter, can double or triple in a matter of months. To require the suspension of a prudence review simply because the Company's actual prices are near index is poor policy given last winters' lessons. Such a system totally ignores the Company's responsibility to evaluate hedging opportunities. An index-based benchmark encourages the Company not to use fixed price contracts because of: 1) the Company's reluctance to see the index move below the fixed price and thereby invoke prudence reviews; 2) by operation of the current grid system; and 3) because an index-based benchmark creates the possibility of reduced GSIP profits.

Q. Why is the RFP process flawed?

A. The current RFP mechanism is biased toward higher premiums and does not take into account Laclede's actual purchasing patterns.

Q. Please explain.

A. Each year prior to winter Laclede contacts a large list of gas suppliers and obtains bids for 3 specific types of gas supply: base-load, combination, and swing. These gas supplies were to represent typical supply configurations required by Laclede to serve its customers. Base-load would result in generally cheaper premiums, combination supply results in intermediate premiums, and swing supply typically adds the highest premiums to the index price. Generally speaking, Laclede does not and did not implement the RFP. This is shown graphically in **Schedule 3**. Laclede accepted a few bids, **_____** in terms of total capacity bid. The mathematical formula, however, used 90% of the bids to calculate the demand cost benchmark (benchmark premium), only eliminating the highest 10%. By accepting the lower tier of bids, Laclede could lock in profits. **Schedule 4** shows that slightly less than one-third of the general contracting approaches Laclede uses are derived from the RFP. The other practices include negotiation with firm suppliers and spot market purchases. Implementing only a few of the bids was not the only way of guaranteeing profit. The RFP premium calculation did not factor in spot market purchases that by definition have a zero premium. The RFP premium calculation did not include existing contracts **_____ _____**. Finally, by simply **_____ _____**, the index would be

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known and nominations increased for supplies with pricing provisions less that the FOM benchmark. These kinds of savings are almost a mathematical certainty.

Q. Is Laclede's gas purchasing practice unique within the industry?

A. No. Laclede's practice of relying heavily on index pricing is a common practice. Furthermore, using RFPs to obtain gas supply is not unusual.

Q. What is the problem with the fixed price component?

A. The fixed price mechanism that is part of the procurement piece of the GSIP should be abandoned. The GSIP design discouraged Laclede from implementing this option last year when it was needed the most. The fixed price mechanism contains a series of rewards for random market movement in the unlikely event that the mechanism does trigger. Laclede recommends abandonment of this feature as well.

Q. Please describe how the pipeline discount mechanism has functioned.

A. This component of the GSIP was set up to recognize performance that improved upon maximum FERC rates. Prior to the initiation of the GSIP, Laclede had already negotiated agreements with significant discounts. In fact, the rates for the bulk of Laclede's discount claims under this mechanism were in effect prior to the inception of the GSIP. Laclede achieved these rates without any incentive from the GSIP.

Q. What other problems are there for the transportation component?

A. Laclede has applied a very broad interpretation of the meaning of "firm transportation" and has claimed a multifaceted array of agreements under this part of the GSIP. Claims of savings have included seasonal arrangements, where reservation charges are only paid for part of the year; bundled sales agreements; and capacity release deals. Discounts from maximum FERC rates are not unusual and should be expected

when a pipeline is not fully subscribed or there are competitive alternatives. Also, as illustrated in **Schedule 5**, 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. When sharing percentages are as significant as 30%, it takes very large increases in discounts for the customers to recoup the monies paid out to Laclede as rewards under the GSIP, much less for customers to achieve any real savings.

Q. Is Laclede's negotiation of pipeline discounts an activity that is unique within the industry?

A. No. Obtaining discounts from maximum FERC rates is not uncommon. Several LDCs in Missouri have discounted agreements with interstate pipelines.

Q. Please describe how the pipeline mix component has functioned.

A. The pipeline mix component was set up to compare a historical configuration or mix of pipeline services with Laclede's current mix. The current program has several problems. Mathematically, it is possible for the customer to actually pay as much to Laclede under the GSIP for reducing capacity as the original capacity costs assigned. For example, if the Company reduces a discounted transportation contract with a Maximum Daily Quantity (MDQ) of 20,000 MMBtu at a $3.00 reservation rate it would have saved $720,000 (20,000*3*12) without a pipeline mix GSIP. Under Laclede's GSIP the FERC's maximum rate would be used to value the capacity and quantify the savings. If the maximum reservation rate was $10.00/MMBtu, Laclede's GSIP would quantify the "savings" as 20,000*10*12, or $2,400,000. The customers' contribution to Laclede's profits would be .30*2,400,000, or $720,000.

Therefore, without a GSIP, the customers' real economic savings is $720,000. With a GSIP the real savings is 0 ($720,000 reduction in expense, less GSIP contribution). The Staff further believes that there are so many exceptions to situations where negative savings might occur that the mechanism is essentially without risk. Finally, a change in pipeline mix can have interrelated detrimental factors from a cost or reliability standpoint that simply are not captured by the single comparison of fixed reservation charges. Changes in receipt points, variable pipeline charges, load factor, and delivery points can have real economic consequences that the GSIP does not measure.

Q. Is Laclede's activity related to pipeline mix unique within the natural gas industry?

A. No. LDCs that have various alternatives routinely alter their mix of services based upon various economic and operational factors.

Q. Please describe how the off-system sales element has functioned.

A. This component was adopted in Laclede's last rate case. One concern regarding off-system sales relates to accountability. When off-system sales were part of the original GSIP, Laclede was required to maintain records to ensure that off-system customers did not receive lower cost system supplies than captive on-system customers. More than just record keeping, the original GSIP tariff regarding off-system sales contained requirements to explain and document all situations where more expensive supplies were allocated to on-system markets and definitions for allocating the highest incremental cost to off-system transactions. This is an extremely important feature. Without this documentation, Laclede cannot reasonably assure that cheaper gas supplies are not being diverted from its customers to off-system sales. Laclede has not maintained

the CGS-Schedule that was one of the safeguards under the old tariffs. When asked if any substitute reports were available with the same type of information, various reports were supplied on different occasions that contained voluminous transactional data. The data was not organized to allow for a timely determination of off-system versus on-system allocations of gas supply. Laclede has no formal process in place to guarantee that off-system sales are being properly handled. Staff witness Thomas Imhoff has submitted draft tariff sheets that contain historically derived safeguards to address this concern. In addition, new language has been added to require the Company to ensure that off-system sales opportunities are not encouraged at the expense of higher capacity release credits. This situation could happen where the net margin from an off-system sale is 3 cents while an available capacity release credit exists for 5 cents.

Q. Are Laclede's off-system sales activities unique with the industry?

A. No. Although more uncommon than capacity release, off-system sales transactions are not unusual and occur as part of other LDC's gas supply operations.

Q. Has the fact that Laclede can profit from its gas purchasing activities resulted in any superior performance over the performance of other natural gas local distribution companies that operate in the State of Missouri?

A. No, not that can be identified by reviewing the delivered cost of gas for the various Missouri Local Distribution Companies (LDCs) over the past few years. **See Schedule 6.** Schedule 6 lists total delivered gas costs (including transportation) divided by sales. Schedule 6 breaks the various delivered gas costs down by PGA district for the ten (10) Missouri LDCs. A ranking is then accomplished by comparing the percentage change in gas costs as compared to the previous year. Delivered cost is critical to any

overall evaluation because it includes all gas costs to procure and transport the gas to the city-gate.

Q. Why not directly compare delivered cost of gas?

A. Although the absolute delivered gas cost is important, differences between LDC operating systems and infrastructure can affect the overall level. Therefore, the Staff used the percentage change from the previous year as an indication of the relative success in improving gas costs reductions or keeping increases to a minimum. The relative change year to year compared to the other districts shows the result of the Company's management of their unique gas procurement circumstances within the common characteristics of the market.

Q. The Commission adopted a GSIP in Case No. GT-99-303 in a different gas market than currently exists. Could you address the differences between the gas market at that time and the current gas market?

A. The GSIP that was adopted by the Commission in Case No. GT-99-303 in September of 1999 relied on data from the three years prior to that date. The gas market has changed dramatically since then. There was a dramatic increase in typical summer prices of gas in May and June of 2000. The increase was substantial enough to cause Laclede to opt out of its price protection commitment under its Price Stabilization Plan (PSP). Gas commodity prices in excess of $4.00/Mcf were common during the summer of 2000, a price level that had been only briefly approached since 1990, in the price spike of January of 1997. These high summer prices have been attributed to record low storage levels; ever increasing gas combustion turbine utilization; and, lagging gas production due to a long period of low natural gas prices. The pricing situation only worsened as the

winter of 2000 got underway. Prices escalated to $6.00/Mcf in December of 2000, finally peaking in January 2001 at $10.00/Mcf. Even at $6.00/Mcf, the price increase represented a threefold increase over prices typically seen in Laclede's original GSIP.

Q. What is the significance of this price move?

A. This past winter illustrates one of the most substantial and serious flaws of the GSIP. The index price of gas is highly volatile and can rise to stratospheric levels. All the while, the GSIP rewards Laclede for buying gas just below the index, no matter how high these short-term prices go. More disturbing is the fact that as long as Laclede performs near the index, prudence reviews for the gas commodity appear to be curtailed.

Q. What other GSIP problems did this winter bring to light?

A. Another alarming consequence of the index-based GSIP is the tendency to ignore the critical gas supply element of hedging. Except for a greatly reduced price stabilization program, **_____ _____**. Although Laclede claimed to fix this inconsistency by adding a fixed price element in Case No. GT-99-303, the experience last winter showed that Laclede was still at the whim of the index. The GSIP protects Laclede against buying fixed price gas. This fixed price mechanism was formula driven and has been discarded by Laclede in favor of another formula that may well provide the same level of protection achieved by the original fixed price mechanism - no protection at all.

Q. Please provide the additional detail regarding the Staff's position regarding modifications two through seven discussed in Mr. Schallenberg's testimony.

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A. Although the Staff's preferred recommendation is that the Commission approve the comprehensive gas-purchasing plan and delivered gas cost mechanism, it will nevertheless suggest improvements to the current GSIP. One of the keys to understanding the Staff's proposed improvements relates to establishing reasonable baselines before the Company achieves profits. Much of the Company's savings levels relate to cost levels achieved years ago. As with a rate case, cost levels should reflect current experience as long as they result in just and reasonable rates. The Company should not be allowed to collect as profits, cost savings that were achieved years ago or have become imbedded in the cost structure over the years. The Staff is proposing to set reasonable baselines for each of the current GSIP components. Staff witness Schallenberg describes modifications one and eight, and I will describe changes two through seven.

Q. Please describe Staff's second modification that addresses the benchmark related to gas supply.

A. This component should not be based on a percentage because of the tendency to raise the benchmark as index prices increase. **Schedule 7** shows a calculation of how Laclede's actual procurement costs compare to the commodity benchmark index currently in use. In reality, the Company **_____ _____**. Instead of developing an elaborate RFP with all its deficiencies, the demand cost benchmark component should only be 1 cent. Instead of being based upon an RFP that's never implemented, and bears little relationship to actual purchasing practices, the Staff's baseline reflects **____ _____**. Staff further suggests that all sharing under

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this mechanism be curtailed in months where the benchmark index price exceeds $5.50. Finally, limitations on prudence reviews should be removed from current tariffs. Removing the prudence review limitation will also remove the disadvantage of purchasing fixed price gas.

Q. The Staff's third modification is related to the benchmark for pipeline discounts other than MRT. Please explain.

A. Attached as **Schedule 8** is a review of pipeline discounts achieved in the first 4 years of GSIP. As can readily be seen, Laclede averages about **_____** in discounts over the 4-year period. The current baseline of $13,000,000 is far too low and does not represent historically achieved discounts. The Staff recommends a re-basing as well as a reduction in the current sharing percentage of 30% down to 5%.

Q. Why reduce the profit percentage?

A. The reason for such a dramatic drop in the percentage that Laclede retains goes to the Staff concern of how broadly Laclede has construed this particular provision in the past. Laclede has claimed profit for seasonal transportation. **_____ _____ _____**. Laclede claims as GSIP savings a 100% reduction from FERC rates for all months excluded by the contract. Laclede also claimed discounts under bundled agreements that are difficult to allocate between supply and transport components. Finally, it appears that Laclede may even be applying this provision to **_____**.

Q. Staff's fourth modification is related to the benchmark related to MRT pipeline discounts. What does Staff propose?

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A. Laclede has made little progress in renegotiating this contract, which is by far the largest transport contract on Laclede's system. It continues to renew the existing rates year after year, under terms of the expiring contract. Given that Laclede is such a large customer of MRT and the magnitude of the costs at stake, the Staff has a continuing concern that discount claims under this provision will cost the customers millions to fund. The Staff prefers no sharing under this aspect of Laclede's portfolio. If the Commission authorizes a sharing, the staff suggests that no sharing be established for this element unless actual Laclede/MRT discounted rates are less than current Laclede/MRT contracted rates and are the result of discounts that are not merely available system wide. If new discounts rates below current Laclede/MRT contracted rates are achieved, the sharing percentage for Laclede should be set at 5% consistent with the pipeline discount provision.

Q. Please describe the fifth modification, related to the benchmark for the mix of pipelines.

A. In Case No. GT-99-303 a new incentive component was added which has been described as the pipeline mix incentive. This incentive has only been in effect for one full GSIP year, the year ended September 30, 2000. The mix of pipeline incentive compares a "base period cost" of transportation contracts in effect during the 1998-1999 ACA period to current fixed costs of transmission and storage services. Base period costs are compared to new costs to derive a value for savings, and Laclede keeps 30% of the difference. Laclede GSIP earnings for this component for the year ended September 30, 2000 were **_____**. At a minimum Laclede should achieve $1,917,000 in savings before sharing occurs. Laclede has not provided, and apparently

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does not keep any detailed documentation about the rationale behind such changes in pipeline mix. The sharing percentage is much too great given the limited risk Laclede has under this component and the ambiguity associated with temporary reductions and transfers of capacity. The staff proposes to make the sharing percentage consistent with the pipeline discount mechanism at 5%.

Q. Please explain the sixth modification that is related to the treatment and benchmark for off-system sales.

A. Off-system sales arise from the Company's practice of marketing additional gas commodity in areas outside the boundaries of its service territory. The Company holds capacity on certain of its upstream pipelines that serve **_____ _____**. It can use this and other idle capacity to bundle off-system commodity and transportation to off-system customers as a package. After the third year of the GSIP, off-system sales were removed from the GSIP and considered in the Company's general rate case, with a level of $900,000 included in revenues in the rate case. Based upon more recent data from fiscal year ended September 30, 2000, this amount appears to be low. Further, separate consideration of off-system sales may negatively affect capacity release revenues. Off-system sales and capacity release decisions can sometimes involve the same capacity, and under some conditions be a trade-off for one another. It is plain to see that the incentives diverge widely when comparing off-system sales to capacity release. For every dollar over approximately $900,000 in off-system margins, Laclede keeps 100%. For every dollar of capacity release achieved, Laclede keeps anywhere from 10% to 30%. For the year ended September 30, 2000, off-system margins were **_____**, while total capacity

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release credits declined to a low of **_____**. In Laclede's 10Qs and 10Ks, off-system sales profits are reported in a similar fashion to other GSIP earnings. The Staff believes it is appropriate to include off-system sales margins in an overall GSIP earnings cap. The Staff also believes that a base-line level should be developed for off-system sales. Since current base rates already include $900,000 of off-system sales margins, the Staff proposes to increase gas costs by a corresponding $900,000 in each ACA period until Laclede's base rates are changed. A four-year average derives a base-line off-system sales level of $1,800,000. Above this amount, Laclede should be allowed to share at 10%.

Q. What overall GSIP earnings cap are you recommending?

A. $9,000,000. There needs to be a cap if Laclede's GSIP is to continue given the opportunity for unexpected windfalls and the complex interrelations of the various components and the high level of natural gas prices.

Q. Please explain the seventh modification that is related to the benchmark for capacity release.

A. Capacity release revenues arise when the Company markets its idle pipeline capacity and receives a credit for releasing the capacity temporarily. This GSIP component has trended down for the past four years. Therefore, the Staff believes Laclede should achieve a base-line level of $1,750,000 before its sharing starts to occur. **_____

_____**. I am also proposing that Laclede's sharing percentage be changed to 10% for capacity release credits above the baseline to make it consistent with the Staff's proposal for off-system sales.

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Q. Is Laclede's capacity release activity unique within the industry?

A. No. Obtaining capacity release credits is a common feature of gas procurement activities.

Q. Does the Company provide the level of detail previously provided to explain the decision-making that went into the natural gas supply portfolio?

A. No. The Company previously (prior to the GSIP process) provided more detailed information about the rationale for the natural gas portfolio for the ACA period under review. For example the Company provided observations, by month, of the base, swing, and spot supply volumes to be used. This information is not contained in the 1998/1999 or the 1999/2000 Reliability Reports submitted by the Company. In response to Staff Data Request 5029, the Company submitted their 1999-2000 reliability report as their most recent gas procurement plan. **See Staff Schedule 9**.

Q. What type of information would you expect to see in your review of the Company's supply portfolio?

A. I would expect to see a discussion of how the Company established the percentages of base, swing, or spot purchases, and how these are used to meet usage needs for summer months, shoulder months, and winter months for a normal, extremely cold, or extremely warm year. The discussion should also explain how storage volumes are considered in this determination. I would also expect to see an economic dispatch model or some discussion of how the Company considers cost and operational requirements for nominating volumes among the various contracts to ensure that the gas delivered is the lowest reasonable price. The current reliability report should include a comprehensive analysis of hedging plans to limit customers' price risk. A gas supply

plan should include a discussion of fixed price alternatives, use of call options, storage utilization as a hedge, index pricing, collars, etc., under various scenarios such as warmer than normal, normal and colder than normal. There should also be a discussion and explanation of significant contracting changes such as a change in the mix of pipeline services or reductions in contracted capacity.

Q. Please discuss your concerns regarding the Company's proposed Experimental Fixed Price Program (EFPP).

A. Overall, the program is formula driven. It is impossible to tell what fixed prices will be. The formula approach makes it very possible that fixed prices will not be used at all. Although the formula proposal is overly complicated, the Staff determined that the fixed price would not have triggered for last winter, when desperately needed. Staff also determined that it is unlikely the fixed price will trigger this winter. **See Schedule 10.** The program volumes, when viewed as a percentage of winter loads, are not very significant. Therefore, what appears to be a useful tool to address devastating winter price fly-ups is merely another problematic, unproven mechanism that takes the focus off the real issue, the delivered price of gas that customers pay. The Company should evaluate the risk exposure of its gas supply portfolio in a comprehensive manner, early in the process, and not wait for pre-approvals or piecemeal tariff formulas. The Commission should order Laclede to evaluate hedging opportunities at the earliest opportunity and Laclede should not delay if significant opportunities arise.

Q. What are your specific observations about the proposed EFPP?

A. Mr. Jaskowiak's Schedule 1 ends in early 1998. That is unfortunate because had the schedule been extended as Staff has shown, any protection offered by

this mechanism would have evaporated in late 1999. Mr. Jaskowiak's Schedule 2 appears to have some coverage in the fiscal year ended September 30, 2000, but this is attributable to a minor carryover from late 1999. The Staff can find no justification for the additional $17.7 million of savings shown in Mr. Jaskowiak's revised schedule 2 for 1993. Based upon the Staff's analysis, attached as **Schedule 11**, the Company's program would not have been in effect in 1993. The tariffs under the EFPP are ambiguous and leave until later, in an after-the-fact review, a clear explanation of how they will function.

Q. What is your conclusion?

A. The Staff requests that the Commission consider this past winter and the consequences for Laclede's ratepayers under the GSIP. Throughout this winter of great discontent, Laclede's GSIP continued to generate significant earnings for Laclede. A careful reading of Laclede's existing GSIP, PSP, and EFPP tariffs should lead to a conclusion that many elaborate triggers and targets abound with the appearance of symmetrical risk. The Staff believes there is little risk in these programs for Laclede and almost 5 years of experience under the GSIP establishes that profits are well assured. When the ultimate test arrived, cold weather and high prices, the GSIP offered only an ever-worsening roller coaster ride on the index. Nothing in Laclede's proposal has been added to prevent an even more catastrophic situation next winter.

Q. Does this conclude your rebuttal testimony?

A. Yes.

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 OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 21 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

David M. Sommerer

Subscribed and sworn to before me this 4th day of May 2001.

Toni M. Charlton

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

CASES WHERE TESTIMONY WAS FILED

DAVID M. SOMMERER

COMPANY	CASE NO.
Missouri-American Water Company	WR-85-16
Great River Gas Company	GR-85-136
Grand River Mutual Telephone	TR-85-242
Associated Natural Gas Company	GR-86-86
Empire District Electric Company	WR-86-151
Grand River Mutual Telephone Company	TR-87-25
Great River Gas Company	GM-87-65
KPL Gas Service Company	GR-89-48
KPL Gas Service Company	GR-90-16
KPL Gas Service Company	GR-90-50
Associated Natural Gas Company	GR-90-152
United Cities Gas Company	GR-90-233
United Cities Gas Company	GR-91-249
Laclede Gas Company	GR-92-165
United Cities Gas Company	GR-93-47
Western Resources Inc.	GR-93-240
Union Electric Company	GR-93-106
Missouri Public Service	GA-95-216
Missouri Gas Energy	GO-94-318
Missouri Gas Energy	GO-97-409
United Cities Gas Company	GO-97-410
Missouri Gas Energy	GR-96-450
Missouri Gas Energy	GC-98-335

Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
Laclede Gas Company	GC-99-121
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-98-297

SCHEDULE 2

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SCHEDULE 3

IS HIGHLY

CONFIDENTIAL IN

ITS ENTIRETY

SCHEDULE 4

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SCHEDULE 5

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SCHEDULE 8

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ITS ENTIRETY

Laclede Gas Company
GSIP-III
Case No. GT-2001-329
Staff Data Request No. 5029

Q. Please provide a copy of the Company's most recent gas procurement plan.

A. See the 1999-2000 Reliability Report submitted to the Staff on October 31, 2000 in Case No. GR-99-316.

Update of Jaskowiak Schedule 1 analyzing more recent years 1998-2001

Month	"Column A" NYMEX FOM strip	"Column B" Average of NYMEX FOM strips for preceding 12 months	"Column C" Is the NYMEX FOM strip below the average of the NYMEX FOM strips for the preceding 12 months? (Column A < Column B?) "Yes/No"	"Column D" How many times has Column C been "Yes" in last 24 consecutive months?	Futures bought at this fixed price
Apr-98	$2.581	$2.338	No	7	
May-98	$2.383	$2.380	No	7	
Jun-98	$2.384	$2.386	Yes	8	
Jul-98	$2.508	$2.401	No	8	
Aug-98	$2.276	$2.428	Yes	9	
Sep-98	$2.178	$2.429	Yes	9	
Oct-98	$2.308	$2.403	Yes	10	
Nov-98	$2.298	$2.383	Yes	11	
Dec-98	**$2.070**	**$2.364**	**Yes**	**12**	
Jan-99	$2.100	$2.338	Yes	13	$2.070
Feb-99	$2.012	$2.329	Yes	13	$2.070
Mar-99	$1.997	$2.294	Yes	13	$2.070
Apr-99	$2.226	$2.258	Yes	13	$2.070
May-99	$2.431	$2.228	No	13	$2.070
Jun-99	$2.473	$2.232	No	12	$2.070
Jul-99	$2.426	$2.240	No	11	$2.070
Aug-99	**$2.576**	**$2.233**	**No**	11	$2.070
Sep-99	$2.675	$2.258	No	11	$2.070
Oct-99	$2.677	$2.299	No	11	$2.070
Nov-99	$2.649	$2.330	No	11	$2.070
Dec-99	$2.413	$2.359	No	11	$2.070
Jan-00	$2.365	$2.388	Yes	11	
Feb-00	$2.654	$2.410	No	11	
Mar-00	$2.907	$2.464	No	11	
Apr-00	$2.960	$2.539	No	11	
May-00	$3.207	$2.601	No	11	
Jun-00	$3.946	$2.665	No	10	
Jul-00	$3.818	$2.788	No	10	
Aug-00	$3.871	$2.904	No	9	
Sep-00	$4.382	$3.012	No	8	
Oct-00	$4.841	$3.154	No	7	
Nov-00	$4.277	$3.334	No	6	
Dec-00	$5.361	$3.470	No	5	
Jan-01	$5.768	$3.716	No	4	
Feb-01	$5.603	$3.999	No	3	
Mar-01	$5.313	$4.245	No	2	
Apr-01	$5.151	$4.446	No	1	

Note: The highlighted area indicates calculations with Staff's futures data added

Schedule 10

Laclede Case No. GT-2001-329
Update of Jaskowiak Schedule 1 for 1990-92 data

Month	"Column A" NYMEX FOM strip	"Column B" Average of NYMEX FOM strips for preceding 12 months	"Column C" Is the NYMEX FOM strip below the average of the NYMEX FOM strips for the preceding 12 months? (Column A < Column B?) "Yes/No"	"Column D" How many times has Column C been "Yes" in last 24 consecutive months?	Futures bought at this fixed price
Aug-90	$1.758				
Sep-90	$1.855				
Oct-90	$1.927				
Nov-90	$1.905				
Dec-90	$1.853				
Jan-91	$1.658				
Feb-91	$1.646				
Mar-91	$1.711				
Apr-91	$1.674				
May-91	$1.628				
Jun-91	$1.578				
Jul-91	$1.501				
Aug-91	$1.585	$1.725	Yes	1	
Sep-91	$1.650	$1.710	Yes	2	
Oct-91	$1.675	$1.693	Yes	3	
Nov-91	$1.625	$1.672	Yes	4	
Dec-91	$1.583	$1.649	Yes	5	
Jan-92	$1.389	$1.626	Yes	6	
Feb-92	$1.412	$1.604	Yes	7	
Mar-92	$1.402	$1.584	Yes	8	
Apr-92	$1.524	$1.559	Yes	9	
May-92	$1.561	$1.546	No	9	
Jun-92	$1.767	$1.540	No	9	
Jul-92	$1.669	$1.556	No	9	
Aug-92	$1.785	$1.570	No	9	
Sep-92	$1.868	$1.587	No	9	
Oct-92	$1.973	$1.605	No	9	
Nov-92	$1.929	$1.630	No	9	
Dec-92	$1.693	$1.655	No	9	

Schedule 11