BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri's Purchased Gas Adjustment	)))	File No. GR-2015-0101
In the Matter of Summit Natural Gas of Missouri's Purchased Gas Adjustment	)))	File No. GR-2015-0102

<u>RESPONSE TO STAFF RECOMMENDATION AND MEMORANDUM</u>

Comes now Summit Natural Gas of Missouri, Inc. ("SNG" or "Company"), formerly known as Missouri Gas Utility and successor in interest to Southern Missouri Natural Gas Company, L.P., d/b/a Southern Missouri Natural Gas ("SMNG"), and respectfully provides to the Missouri Public Service Commission ("Commission") the following response to the Commission Staff Recommendation and Memorandum:

1. On December 14, 2015, the Commission Staff ("Staff") filed its recommendations regarding the Summit Natural Gas of Missouri, Inc. 2013-2014 Actual Cost Adjustment ("ACA") filings in this matter in File Nos. GR-2015-0101 and GR-2015-0102. These documents set out the results of Staff's audit of the billed revenues and actual gas costs for the period September 1, 2013 through August 31, 2014, included in the Company's 2013-2014 ACA filings.

2. On December 22, 2014, the Commission issued its Order Granting Motion to Consolidate wherein it ordered that Files Nos. GR-2015-0101 and GR-2015-0102 are consolidated under File No. GR-2015-0101.

3. On December 16, 2015, the Commission issued its Order Setting Time to Respond wherein it ordered SNG to file a response to Staff's Recommendation no later than

January 30, 2016. SNG will respond to the various issues identified by Staff in the following paragraphs. SNG's response will reference the Memorandum by use of the same section titles utilized by the Staff.

<u>Section II - Billed Revenue and Actual Gas Costs</u>

4. August 2014 Gas Supply Purchases – SMNG Service Area. The Company agrees with the Staff Recommendations.

5. ACA factor – Northern Service Area. The Company will continue to evaluate the effectiveness of interim PGA filings in all of its PGA rate areas. One issue the Company has with interim PGA's is that by the time a deferred balance is identified as being out of line, there aren't enough remaining non-winter volumes to make a significant impact in the deferred balance. The volume issue is compounded by the fact that the ACA component of the the PGA rate must remain the same as the amount filed in the prior ACA period, not allowing for the recovery or refund of any of the increase or decrease in the deferred balance caused by significant changes in elements affecting the PGA.

6. Unpublished Index Prices – Northern Service Area. The Company has expanded its access to market based pricing alternatives beyond Gas Daily and Inside FERC's Gas Market Report to include Natural Gas Intelligence, Intercontinental Exchange (ICE), and SNL Financial. This enables the Company to determine market prices through multiple sources as recommended by Staff.

<u>SECTION III - RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING</u>

7. Weather Normal Data. The Company agrees with the Staff Recommendations.

8. Peak Day Forecasting and Reserve Margins. The Company has not conducted a study of the disparity between actual and expected usage. However, underestimates of Branson usage has been noted and will be investigated. The Company will, for future planning, consider the use of a 95% upper confidence interval and the use of multiple prior years' data in the development of regression statistics.

9. Supply for Peak Day and Other Cold Weather Plans. Supply reliability to meet peak day demands is a significant determinant in the Company's annual supply planning. The Company will continue to review the reliability of its gas supply plans and consider Staff's recommendation to employ swing/call agreements.

10. Northern Service Area: Gas Daily vs. First of Month Index Baseload. For the months of December 2013 – February 2014, Company acknowledges a suggested per dth price differential for volumes delivered via its STS Contract (ANR SW Headstation receipt) in lieu of its FTS Contract (REX West receipt). In Staff's evaluation, it shows favorable pricing had the Company utilized its STS contract rather than its FTS contract for this same three (3) month period. Staff's calculated variance however does not consider the following:

- Higher STS Commodity costs;
- Monthly fixed FT Reservation Charges whether utilized or not; and,
- A presumed adder for gas deliveries to the ANR SW Headstation.

Thus, the Company has calculated the difference to be less than Staff's calculation (see **Attachment 1** - Per Dth Cost Variance Analysis December – February 2013 – 14 Scenario 1 Actual).

The Company also acknowledges the extreme weather and market pricing conditions (historical) experienced during the winter of 2013 – 2014. As such, the Company has provided a similar analysis adjusting two (2) days of Gas Daily (GD) published prices (February 6 and 11, 2014) that can be reasonably viewed as anomalies. Pricing was adjusted to take the average of the GD published prices before and after. Although results still show favorable First of Month ("FOM") pricing, the variance is smaller for the month of February calculation (*See* **<u>Attachment 2</u>** - Per Dth Cost Variance Analysis December – February 2013 – 14 Scenario 2 Adjusted).

Using similar methodology, the Company evaluated the December 2014 – February 2015 period. Results favor the use of GD prices over FOM prices (*See* **<u>Attachment 3</u>** - Per Dth Cost Variance Analysis December – February 2014 – 15 Scenario 3 Actual). Given the varied results over the past two (2) winters, it remains inconclusive as to which pricing scenario and delivery alternative results in the most favorable price.

Market prices can be volatile; therefore, Company elects to exhibit control over absolute certainties such as the optimization of its FTS reservation charges. Prioritizing baseload volumes on the STS contract over the FTS contract will surely increase the Company's WACOG without any certainty of favorable delivered gas costs. Moving forward, Company intends to maintain this FTS contract prioritization gas management prerogative.

Lastly, it is important to note however that during the current winter, Company has successfully acquired natural gas supply deliveries at the REX West Receipt Point using NGI FOM Chicago Citygate Pricing. Company plans to use this method of pricing for any additional baseload volumes delivered to REX West and not subject its rate payers to potential price volatility for such volumes.

11. Proposed Disallowance for Avoidable Capacity Over-run Charges. The Company has acknowledged it failed to schedule its Southern Star Central Gas Pipeline (SSCGP) capacity during December 2013–January 2014, in a manner to avoid/minimize Authorized Overrun

Charges (ORA) from SSCGP. Further, the Company continued this erroneous procedure through March 2015, when it was questioned by Staff in data requests for this current ACA Review. At that point, the Company audited its SSCGP scheduling procedures and discovered the error. The Company immediately revised its procedures to correctly schedule its SSCGP capacity and improved its invoice approval process related to reconciling ORA events and charges.

The Company does not dispute its responsibility for "Avoidable" ORAs; however, it does not agree with Staff's methodology for determining Avoidable ORAs. The Company calculated Avoidable ORA's (See **Attachment 4HC[1]** -ORA Model 2013-14) for the period by comparing 1) ORAs incurred by its actual scheduling activities, to 2) ORAs that would have been incurred if the Company had perfectly scheduled its SSCGP capacity. This methodology results in $7,984 of Avoidable ORAs. This amount is then adjusted to back out $878 of unavoidable transportation commodity charges imbedded in the ORA rates to arrive at a total Avoidable ORA cost of $7,167.

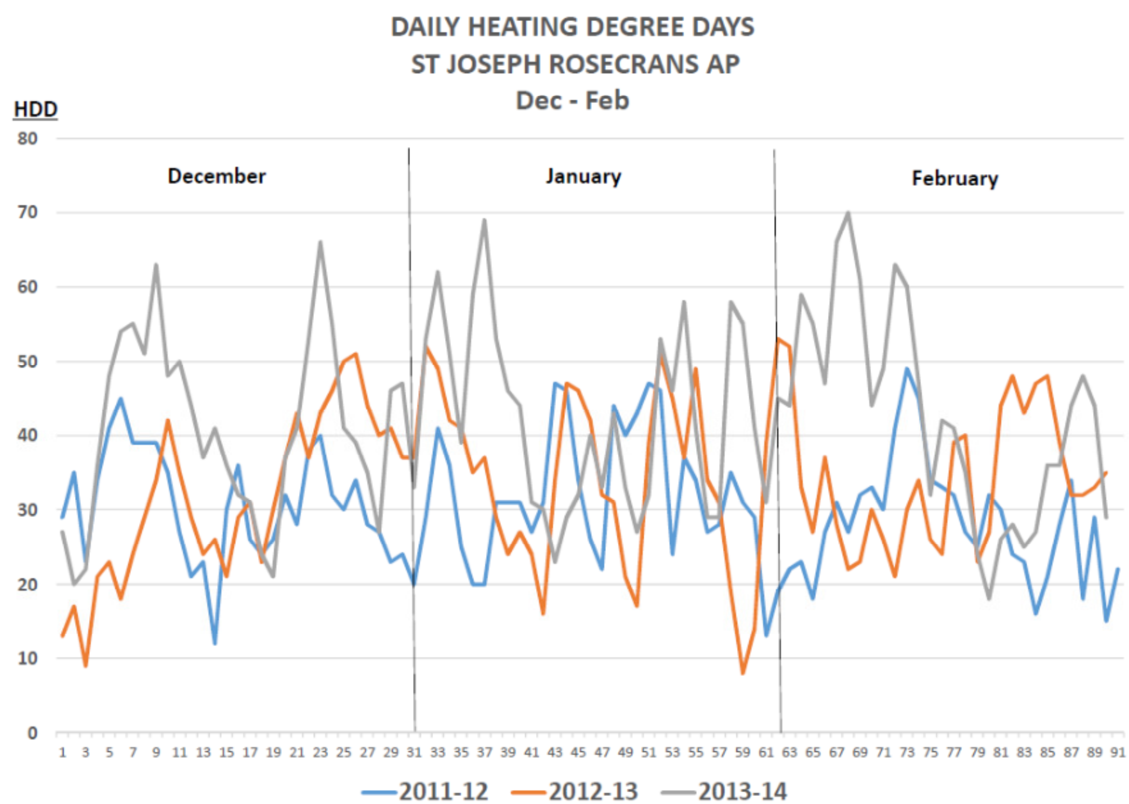
Also, it appears Staff did not adjust its calculated ORA of $8,052 to back out the transportation commodity charges imbedded in the ORA rates. These are unavoidable charges and total $878 on the ORA quantities. Applying this adjustment to Staff's calculated Avoidable ORAs results in a net Avoidable ORA cost of $7,174.

Because, in this situation, Staff's and the Company's Avoidable ORA calculation methods provide similar results, the Company accepts Staff's recommended disallowance in Avoidable ORA adjusted for unavoidable transportation commodity charges (total amount of $7,174). However, the Company does not accept Staff's methodology for calculating Avoidable

[1] Attachment 4HC is identified as Highly Confidential because it includes delivered volumes by rate area. Such information is both "market-specific information related to services offered in competition with others" and relevant to "strategies employed, to be employed, or under consideration in contract negotiations."

ORAs and encourages Staff to consider the Company's methodology if similar calculations are necessary in the future.

12. Proposed Disallowance for Northern Service Area February 2014 Imprudent Supply Decisions. The Company's natural gas supply decisions during this ACA Period were appropriate for the market conditions and the Company believes its decisions at the time were in the best interest of its Customers. This was the infamous "Polar Vortex" winter and the Company's retail sales demand was much higher than anticipated and this resulted in deviations from the Company's Natural Gas Procurement Plan. Specifically, the Company's storage inventory in its Northern Service Area was drawn down more rapidly than planned and, to ensure adequate supply for the remaining winter months, the Company took corrective action to replenish its storage inventory. The chart below shows the heating degree days (HDD) for winter 2013-14 as significantly higher than the previous two winters.



Relating HDDs to the Company's retail sales demand makes it clear from the chart that demand on the Company's system during December 2013 through February 2014 was dramatically higher than recent years and, therefore, it was not unreasonable for Company to have deviated from its Natural Gas Procurement Plan to meet its responsibility of ensuring reliable natural gas supply for its Customers.

The Company stands by its natural gas supply procurement decisions during this ACA Period and objects to Staff's recommended disallowance.

13. Northern Service Area: Supply-Storage Decisions. The Company will continue to review and evaluate their storage balances weekly during the winter months and during the non winter months as necessary.

SECTION IV - HEDGING

14. Hedging Recommendations. The Company's responses to the Staff Hedging Recommendations as follows:

a. Staff recommends that the Company establish and maintain a current and consistent hedging policy with stated objectives based on month-specific normal weather requirements while also considering the impacts of warmer and colder than normal weather scenarios. This information is provided in the overall Gas Supply Plan developed by the Company and is provided to Staff each May.

b. The Company considers all of the options recommended by Staff (including a combination of storage withdrawals, call options and other fixed price purchases for effective hedging during the winter months) as a normal course of business.

c. The Company will continue to evaluate plans for storage injections and withdrawls as part of the overall hedging strategy in its Gas Supply Plan and will continue to document reasoning for transaction decisions.

d. The Company will continue to outline a specific hedging strategy in its Gas Supply Plan. This plan is provided to Staff annually and will continue to document the reasoning for transaction decisions.

e. The Company's criteria and reasoning for its hedging transactions are documented in its Gas Supply Plan provided to Staff each May and the Company's Gas Supply Committee meeting minutes.

WHEREFORE, Summit Natural Gas of Missouri, Inc. respectfully requests that the Commission consider this response to the Staff Recommendations and issue such orders as it believes to be reasonable and just.

Respectfully submitted,

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ATTORNEYS FOR SUMMIT NATURAL GAS
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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail to the following counsel this 29th day of January, 2016:

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