Exhibit No.:	
Issue:	*PGA off-system sale*
Witness:	*David M. Sommerer*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*GR-2022-0136*
Date Testimony Prepared:	*March 1, 2024*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

PROCUREMENT ANALYSIS

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

SPIRE MISSOURI, INC.

CASE NO. GR-2022-0136

Jefferson City, Missouri
March 2024

** Denotes Confidential Information **

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REBUTTAL TESTIMONY

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DAVID M. SOMMERER

SPIRE MISSOURI, INC.

CASE NO. GR-2022-0136

Q. Please state your name and business address.

A. David M. Sommerer, 200 Madison Street, Jefferson City, MO. 65101.

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

A. I am employed by the Missouri Public Service Commission (Commission) as the Manager of the Procurement Analysis Department.

Q. Are you the same David M. Sommerer that filed Direct Testimony in this case?

A. Yes.

<u>EXECUTIVE SUMMARY</u>

Q. What is the purpose of your Rebuttal Testimony?

A. My Rebuttal Testimony will address two main areas of disagreement with the Company's Direct Testimony as filed by Mr. Weitzel and Mr. Yonce. The first area I will discuss relates to the Company's reliance on the proposition that Off-System Sales (OSS) tariffs, or some other standard, requires the Company to purchase gas to "replace" the gas sold. In short, the OSS tariffs do not require that the gas sold be replaced, but do require that gas be assigned to transaction so that a comparison can be made between the sales price and the underlying cost of gas assigned to the transaction.

The second area I will discuss is the Company's previous reference to Southern Star Central Gas Pipeline's (SSC's) tariff regarding certain requirements to use at least one-third flowing gas supply.

As an additional note, except for supporting schedules, the Company has, generally speaking, redacted the counterparty involved in the OSS transaction, the sales price of the OSS, the gas supply cost the Company has associated with the OSS, and the volumes of the OSS. Staff intends to use this approach to redactions within this testimony.

THE CONCEPT OF REPLACEMENT GAS

Q. In your opinion, based upon the Company's Direct Testimony, what do you consider one of the most foundational disagreements between the Company and Staff with regard to the OSS issue?

A. It is clear from both the Direct Testimonies of Company Witnesses Yonce and Weitzel, that the Company is arguing that the gas used to replace the gas sold from storage is the relevant supply to assign to the OSS transaction. Both Company witnesses refer to the word "replacement" or "replace" numerous times. However, that concept, using replacement gas to assign to an OSS transaction, is not to be found in the OSS tariff. This difference in tariff interpretation and ultimately what gas is reasonable to assign is key to the case.

Q. Please address Mr. Yonce's Direct Testimony with regard to the concept of using replacement gas with regard to the OSS at issue.

A. On page 9, lines 8-12 of his Direct Testimony, Mr. Yonce describes the replacement gas. I do not dispute that it is possible that the Company had this gas in mind within a few days of the OSS transaction as being what they considered to be the relevant supply to replace the gas sold out of storage. However, the general default, and basic principle of allocation underlying the OSS tariff is to use the highest cost of gas supply flowing on the pipeline in question. Given the unique nature of the sale from storage, and the tariff's allowance for consideration of special circumstances, flowing supply during February 2021 should be evaluated. In fact, over the years, gas supply has been allocated to OSS transactions that was already ordered for the entire month. In the alternative, gas that had not been previously scheduled or ordered, for example, spot market purchases, could be relevant to an OSS sale, especially if it represented the highest cost on the pipeline. The reason Staff allocated the higher cost supply flowing around the time of the sale was that this supply was part of what allowed the Company to maintain storage balances and meet customer demand.

Q. Do you agree with Mr. Yonce's basic premise that Staff has arbitrarily found the highest cost gas supplies and allocated those supplies to zero-out the profit margin associated with the sale (page 11, lines 12-23, and page 12, lines 1-6 of Mr. Yonce's Direct Testimony)?

A. No. Had there not been an abundance of high-cost supply purchased by the Company during the timeframe immediately before, during, and after the sale, the gas cost associated with the sale would have allowed for a significant profit margin to share. This was not the case. There was more than enough flowing gas supply being purchased at a price in excess of the sales price for the OSS to plainly show that no real profit was available from this transaction.

Q. Mr. Yonce argues that Staff's allocation assumes replacement gas purchases prior to the OSS (page12, lines 7-18 of Mr. Yonce's Direct Testimony). Do you agree?

A. No. Staff's adjustment takes gas supply that was actually purchased by the Company, and assigned the higher costs supplies to the OSS transaction. Staff does not assume that the gas that was sold even needed to be replaced. In a situation where the Company may have had excess flowing supplies or late-season storage surpluses, there would be no need to replace the storage gas that was sold.

Q. Mr. Yonce, on page 13, lines 5-13, of his Direct Testimony essentially argues that Staff's adjustment somehow implies storage injections in a time where storage withdrawals were occurring. Do you agree with his assessment?

A. To the extent that Mr. Yonce is simply showing the result of the Company's SSC storage use, I don't dispute that there was withdrawal activity happening in this time-frame. However, to the extent this is another argument that implies that Staff's adjustment assumes hypothetical storage injections, I would disagree. Staff's adjustment is not assuming gas must be replaced as part of the OSS transaction, and has not assumed hypothetical injections or advance purchases of gas.

Q. Is there an additional area of Mr. Yonce's Direct Testimony that you disagree with?

A. Yes, on page 10, lines 12-14, of his Direct Testimony, Mr. Yonce asks if there was anything about this deal fundamentally different from other OSS transactions. His answer was "no". Do you agree with his response?

Q. No. This OSS transaction was fundamentally different in very important respects. First, in my recollection, there has not been a sale from storage, in the history of Missouri off-system sales. This is understandable given the nature of storage. It often has a weighted average cost of gas (WACOG) that is less than what current market prices are. But the OSS tariffs where not designed to specifically address sales from storage. Part of the reason is that as soon as the sale is made, there can be a multitude of arguments around what the relevant gas supply to allocate to the sale should be. Also, storage is one of the key tools in developing a reliable gas portfolio. Moving gas out of storage, could be problematical from a reliability standpoint. In addition, storage tends to be part of a company's hedging plan, where moving significant gas out of storage could result in exposure to high prices later in the heating season. In Staff's view, this OSS is unique.

Q. Is there another clarification you have for Mr. Yonce's Direct Testimony?

A. Yes, in discussing Operational Flow Orders (OFOs) Mr. Yonce notes on page 7, lines 20-21 that the SSC storage OFO required a shipper **not store** any amount of natural gas above 0% of its MSQ (emphasis added). MSQ is the Maximum Storage Quantity, and would typically be a positive number. I consider this to be a misquoting of the actual SSC OFO that required inventory to remain above 0%.

Q. On page 12, lines 13-17, Mr. Weitzel states that "Staff's $25 million disallowance recommendation ignores the language of Sheet No. 11.12 by assessing the Company a **0%** share, when the tariff is clear that firm customers retain **75%** of OSS profit while the company shall retain **25%**". Do you agree with his statement?

A. No. The tariff clearly provides for a 75% customer retention and 25% company retention of OSS margin. The Staff's calculation assigns a different cost of gas to the OSS transaction that results in an OSS margin of zero. Under that assignment of gas costs, there is no profit to share.

Q. On page 12, lines 18-23, and page 13, lines 1-2, Mr. Weitzel argues, in part, that the Staff's use of an OSS cost of gas supply of ** [redacted] ** per MMBtu is "unsupported", and that this position "effectively erases the profit made on the OSS". Do you agree?

A. No. Staff has provided support for the gas costs assigned to OSS transaction. There was enough high-cost supply at or near the time of the sale, that by using the principle of assigning the highest cost flowing on the pipeline, the OSS margin was actually zero. These gas supply costs were actually incurred by the Company and subject to allocation to the OSS transaction.

Q. On page 13, lines 3-18 of his Direct Testimony, Mr. Weitzel discusses Tariff Sheet R-27, and the highest cost standard, noting that "Staff appears to use this language to latch onto an arbitrary value from Spire Missouri West's CGS schedule to eliminate any profit, instead of using the actual price of the gas purchased to replace the gas sold in the OSS." Do you agree with this characterization?

A. No. As explained previously, Staff's assigned cost of gas was not an arbitrary value, but supported by the principle of using actual high cost gas supplies being incurred near the time of the sale. In addition, the choice of the assignment was not to eliminate any profit, but to recognize a fair allocation of gas costs to the transaction. Had the Company incurred relative low costs for its native load on-system customers, there would have been a large profit margin to share, given the likely assignment of prevailing low cost supply in the gas supply portfolio.

Q. On page 13, lines 10-18 of Mr. Weitzel's Direct Testimony, it is noted that the tariff references the highest cost of gas, "…unless a lower CGS is documented and supported…" Do you agree that there are possible exceptions to the general standard that the highest cost of gas supply should be assigned to a particular OSS transaction?

A. Yes, although I would take exception to the statement on line 17 that "Staff's analysis ignores the full text of the tariff, as well as the operational planning, capacity and contract limitations, operation realties, and trade execution timing." Staff considered alternative gas cost allocations, including the Company's theory that what it characterizes as the replacement cost of gas somehow rules assignment of gas costs. The gas used to replace the gas sold from storage, is actually driven by what the Company considers to be associated with the sale. It may well be that the Company had in mind the eventual gas supply that was used to calculate the OSS margin. However, gas is fungible, and the heart of the OSS tariff recognizes this fact, that arguments could arise from what gas supply was relevant and reasonable. The Company's argument for the use of a particular supply that it considered to be the replacement gas is itself arbitrary in that there is no requirement to replace gas assigned to an OSS transaction, and even if a party were to consider replacement gas as being an alternative, it places too much subjectivity around what, when and where that replacement gas came from.

Q. What is your response to Mr. Weitzel's discussion on page 14, lines 3-10 of his Direct Testimony?

A. Again, this discussion places ultimate weight on the concept of using **replacement gas**, or the gas considered by the Company to be what was used to replace gas sold in the OSS. The concept of replacement is not referenced in the tariff, and seems to be used to establish or lock-in what the Company viewed was an appropriate margin for the sale. In fact, it is Staff's understanding, based upon documents provided in the ACA review, that ** [redacted].**

Q. Is there a cost impact from the gas the Company assumes is replacement gas for the OSS if the Staff position prevails?

A. To be consistent with Staff's position in this case, the Company's invoiced cost of gas for what it considers to be replacement gas, would be an addition to gas costs for on-system customers in the 2020-2021 ACA period. However, after reviewing the impact on carrying costs of not crediting the entire OSS to the PGA for over two years, Staff is not proposing to increase on-system gas costs to reflect the delayed return of this money to the customer. If Staff prevails and the Commission chooses to add this cost to the on-system actual cost of gas, the amount would simply be the unit price of the replacement gas cited in Spire's testimony multiplied by the volumes associated with the OSS.

Q. On page 14, lines 11-23, and page 15, lines 1-12, of Mr. Weitzel's Direct Testimony, additional discussion takes place about hypothetical injections (page 15, line 2), that in the Company's view appear to be inherent in Staff's adjustment. Do you agree with these assessments?

A. No. Staff is rejecting the idea that there must be replacement gas driving the allocation of gas costs to the OSS transaction. The gas costs that Staff assigned, use the same volume gas that is associated with the OSS. Any attempt to follow the gas molecules that are used to develop the cost of gas assigned is not consistent with the tariff's longstanding concept that highest cost supply is the first thing to be considered unless alternatives are fully supported and documented.

Q. On page 17, lines 1-3, Mr. Weitzel notes in his Direct Testimony that "The molecules Staff attempts to assign as the OS-CGS were not purchased for **[redacted] ** and Staff provides no basis or support for why ** [redacted] **should be used.?" Do you agree?

A. No. The basis of this number is the fundamental argument supporting Staff's assignment of gas costs to the transaction. There was an ample amount of actual gas purchases incurred near the time of the OSS. In each instance where Staff noted the Company had acquired gas, and the cost exceeded the sales price of the OSS, Staff allocated those costs to the transaction. Had Staff assigned the actual gas supply packages that cost greater than ** [redacted] **(the OSS sales price) the profit calculation would have driven the profit margin to a negative number. This result would have been excessive, although the customers would eventually be charged, through the PGA process, for the actual gas costs, including these unprecedented prices. In Staff's view, the Company's request to keep approximately $25 million of what the Company viewed as a $100 million gain, cannot be considered outside the context of the historically high gas costs experienced at or near the time of the OSS.

Q. Do you have further comments with regard to Mr. Weitzel's Direct Testimony?

A. Yes. On page 17, lines 15-21, of his Direct Testimony, Mr. Weitzel summarizes possible impacts to the Company's authorized ROE from its last general rate case during this time. The PGA is designed to be a pass-through of the actual, prudently-incurred, cost of gas. It is not part of the ROE calculation, and the fact that the Company considers the OSS margin initially booked to be part of its income, does not take away from the fact the Commission has the authority to evaluate the transaction and rule on the issue in this case.

INITIAL COMPANY REFERENCE TO SSC TARIFF REQUIRMENT TO FLOW AT LEAST ONE-THIRD FLOWING SUPPLY

Q. Did the Company raise the issue of SSC's one-third flowing supply tariff requirement in its direct testimony in this case?

A. There was no longer a specific reference to this issue, although paragraphs 20 and 21 of the Company's response to Staff's recommendation had emphasized this possible SSC restriction as relevant to the OSS transaction. Staff has issued discovery with regard to this issue and may further discuss in Surrebuttal Testimony.

Q. Does this conclude your Rebuttal Testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Spire Missouri, Inc. d/b/a Spire (West) Purchased Gas Adjustment (PGA) Tariff Filing	)))	Case No. GR-2022-0136

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW DAVID M. SOMMERER and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of David M. Sommerer*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

David M. Sommerer
DAVID M. SOMMERER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 29th day of February 2024.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2027
Commission Number: 15207377

Dianna L. Vaught
Notary Public