

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2002-1103, Laclede Gas Company

FROM: Dave Sommerer, Manager - Procurement Analysis Department
Anne Allee, Regulatory Auditor - Procurement Analysis Department
Kwang Choe, Ph.D., Regulatory Economist – Procurement Analysis Department

/s/ Dave Sommerer 11/06/03

Project Coordinator / Date

/s/ Tim Schwarz 11/06/03

General Counsel's Office / Date

SUBJECT: Staff Recommendation in Case No. GR-2002-1103, Laclede Gas Company's
2001-2002 Actual Cost Adjustment Filing

DATE: November 7, 2003

The Procurement Analysis Department (Staff) has reviewed Laclede Gas Company's (Company or Laclede) 2001-2002 Actual Cost Adjustment (ACA) filing. This filing was made on October 31, 2002, and is docketed as Case No. GR-2002-1103. The filing contains the Company's calculations of the ACA and Refund balances. The Staff's review included an analysis of billed revenues and actual gas costs for the period October 1, 2001 through September 30, 2002.

Laclede Gas Company serves approximately 630,000 residential, commercial and industrial customers in St. Louis metropolitan area and the surrounding southeastern counties.

Because of internal resource limitations, the Staff did not make a reliability recommendation for this ACA period. Staff's reliability recommendations in the prior two ACA cases, GR-2000-622 (1999/2000 ACA) and GR-2001-387 (2000/2001 ACA) were similar. In response, Laclede and Staff agreed that Laclede would update some of the reliability information prior to planning for the 2002/2003 winter season and provide documentation supporting the Company decisions. This delay in providing additional reliability information until the ACA review of the 2002/2003 winter, instead of the 2001/2002 winter, provides additional support for the Staff decision to not undertake a reliability analysis recommendation for the 2001/2002 ACA review and then to once again provide a detailed reliability review for the 2002/2003 ACA, GR-2003-0224, which is due on or before December 31, 2004. The Staff's review of the Company 2001/2002 Reliability Report in conjunction with a review of Company invoices shows that the Company's contracted pipeline capacity for this period did not change from the previous ACA period.

LACLEDE ENERGY RESOURCES (LER)

**

** Per The Laclede

Group's 2002 Annual Report to Shareholders, LER is an unregulated marketing affiliate. Given the common ownership of LGC and LER along with LER's significant market share in St. Louis, the Staff believes it is important to inform the Commission of LER's market share and intends to continue to review significant transactions regarding these affiliates.

DEFERRED CARRYING COST BALANCE (DCCB)

The Deferred Carrying Costs Balance is the monthly cumulative under or over-recovery of gas costs for each annual period. Carrying costs are applied to the portion of the DCCB that exceeds 5% of the Company's annual gas cost level. If the DCCB exceeds the 5% threshold, carrying costs are either refunded to the customers for over-recoveries or recovered from the customers for under-recoveries.

The Staff has reviewed the calculation of Laclede's Deferred Carrying Cost Balance for this ACA period. Laclede's DCCB included interest accrued on its futures margin account. Laclede's policy does not fully explain how the Company minimizes this margin account balance. The impact in this ACA period is not substantial, therefore, the Staff will continue to monitor the futures margin account activity and accrued interest in its annual ACA reviews.

Subsequent to the Company's initial ACA filing, Laclede provided the Staff with a revised DCCB balance to correct errors. Therefore, the Staff proposes an additional adjustment of (\$36,719.46) to reflect the correct DCCB.

OFF-SYSTEM SALES

An off-system sale occurs when Laclede sells gas or gas bundled with transportation to parties at locations off the Company's distribution system. The Staff reviewed Laclede's off-system sales transactions. Pursuant to its tariffs, Laclede is required to document, for each occurrence, all reasons the Company's system sales customers pay a higher price for gas supply than an off-system sale customer. The written documentation for each occurrence was not provided to the Staff. Therefore, the Staff recommends, when a sale of this nature occurs, the Company note the reason under the comments portion of the Cost of Gas Supply Schedule.

PURCHASING PRACTICES - HEDGING

Laclede states that it has adopted a gas supply risk management policy with the purpose of limiting the impact of natural gas price volatility on its customers. The April 25, 2002 Board of Director Minutes from The Laclede Group asks ** _____

_____ ** In the minutes it states that Mr. Neises ** _____

_____ ** The Company is requesting the pass-through of several million dollars in hedging costs, and it should be required to provide support for the reasonableness of those expenditures. ** _____

_____ **

The Staff reviewed Laclede's policy and its hedging transactions applicable to 2001/2002 ACA period. ** _____

_____ ** The Staff did not find evidence that Laclede is maintaining documentation regarding the rationale for each of its hedging transactions. The Company did not provide Staff with documentation of its rationale for each hedging transaction at the time of the transaction that would constitute an audit trail. Therefore, the Staff recommends that for the 2003/2004 ACA period forward, the Company provide for each hedging transaction, documentation from the time the decision is made and the transaction is executed: the purpose of the hedge, the Company evaluation of the market conditions supporting the hedge, and all transactions details, including but not limited to the date the transaction is executed and the costs to establish the hedge position. The same items should be noted if the hedge is liquidated. For the 2002/2003 ACA period, the Staff recommends that the Company provide all documentation noted above supporting its hedging decisions. The Staff further recommends this documentation should be maintained and be made available to the Staff during each ACA review.

RECOMMENDATIONS

The Staff recommends the Commission issue an order requiring Laclede to:

1. Establish the following account balances in its next ACA filing to reflect the (over)/under recovery of ACA and Refund balances to be (refunded)/collected from the ratepayers as of September 30, 2002:

	(Over)/Under Recovery per Laclede Filing	Staff Adjustments	Ending Balances	Refund Balance
Firm Sales non-LVTSS	\$(23,441,403)	\$36,055	\$(23,405,348)	
Firm Sales LVTSS	\$2,040,207		\$2,040,207	
Interruptible Sales	\$(291,016)	\$664	\$(290,352)	
LP Sales	\$(7,436)		\$(7,436)	
Firm Transportation	\$508,954		\$508,954	
Refund	\$113,629			\$113,629

2. Staff recommends that the Commission issue an order requiring Laclede to take the following actions regarding its off-system sale and hedging activities:
 - a. For each off-system sale that is made where the cost of gas supply is less than the system sales customer cost of gas supply, the Company shall note the reason under the comments portion of the Cost of Gas Supply Schedule.
 - b. For each hedging transaction executed during the 2003/2004 ACA period, the Company shall document its rationale supporting its decision at the time of transaction, as noted in Staff's comments in the Purchasing Practices – Hedging section of this Staff Recommendation. The Company will submit a copy of this documentation to Staff by November 1, 2004.
 - c. For each hedging transaction executed for the 2002/2003 ACA period, submit a copy of all Company documentation supporting its hedging decisions, as noted in Staff's comments in the Purchasing Practices – Hedging section of this Staff Recommendation. **

**

The Company will submit a copy of this documentation to Staff by February 2, 2004.
3. Respond to the recommendations herein within 30 days.