

Br #2

LACLEDE GAS COMPANY  
720 OLIVE STREET  
ST. LOUIS, MISSOURI 63101  
(314) 342-0532

MICHAEL C. PENDERGAST  
VICE PRESIDENT  
ASSOCIATE GENERAL COUNSEL

February 4, 2009

Mr. Steven C. Reed  
Chief Litigation Attorney  
Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, MO. 65101

Re: Case Nos. GR-2006-0288 and GR-2005-0203

Dear Steve:

I am writing on behalf of Laclede Gas Company ("Laclede" or "Company") in response to the Commission's January 21, 2009 Order Regarding Request for Clarification in the above-referenced cases. In its Order, the Commission clarified that Laclede should provide the Staff with the information Staff requested from Laclede in your August 28, 2008 email to me "[t]o the extent Laclede is in possession of such information."

Steve, this case ultimately comes down to one very simple issue: Did Laclede pay or charge a reasonable market price in its dealings with LER? Both the affiliate transaction rules and prudence operate to provide assurance to Laclede customers that the pricing involved in transactions with LER is comparable to the pricing that would have taken place between Laclede and a non-affiliated party.

Regardless of whether Laclede is buying gas supplies from or selling gas supplies to LER, there should be a standard process for documenting market price. Toward this end, Laclede and Staff held meetings in which Laclede discussed how it maintains market information to support market pricing on off-system sales and capacity releases made to LER. Specifically, Laclede uses a public trading exchange known as IntercontinentalExchange or "ICE" to support market pricing on off-system sales, and uses pipeline companies' electronic bulletin boards to support market pricing on capacity releases. Laclede conducted a demonstration for Staff on how ICE works and what information is available. Laclede sought to reach an understanding with Staff upon which Laclede could rely in documenting these types of affiliate transactions.

The Staff has to date declined to reach agreement on a practical method to confirm market pricing. This may be due to the fact that Staff's view of the appropriate pricing standards differs from Laclede's view as expressed above.

Exhibit No. 2  
Date 11-4-10 Reporter TU  
File No. GR-2005-0203  
GR-2004-0288

Staff apparently believes that, when LER sells gas supplies to Laclede, the price paid by Laclede should be the lowest cost that LER incurred to obtain gas in the field. And when Laclede sells gas supplies to LER, Staff apparently believes that the price received by Laclede should be the prevailing price at the location of the sale plus any profit LER later made on selling the gas supplies it purchased from Laclede. Accordingly, in its discovery requests, including the August 28, 2008 data requests, Staff seeks information on LER's purchases from non-affiliated parties for gas supplies sold to Laclede, and on LER's sales to non-affiliated parties for gas supplies LER bought from Laclede. Other than documents previously furnished to Staff, Laclede is not in possession of the information sought in the August 28 data requests.

Staff's position on market pricing simply cannot be appropriate, because *it essentially precludes LER from engaging in any affiliate transactions with Laclede*. According to Staff, when LER sells gas supplies to Laclede, LER must charge a price that is based not on the competitive prices being demanded and paid by other, non-affiliated suppliers, but rather on the cheapest cost of gas that LER has in its portfolio, without compensation of any kind for the services LER has provided, the internal costs it has incurred, or the risks it has undertaken. There is simply no marketer (or any other business for that matter) that would agree to provide service under such unreasonable conditions.

Conversely, when LER purchases gas supplies from Laclede, Staff insists that LER agree not to compete with Laclede for any potential sale of gas or, if it does compete, to disgorge any margins made on such sales. Once again, no rational marketer or business owner would ever agree to operate under such unreasonable restrictions.

Moreover, these anti-competitive conditions are inconsistent with federal law, not to mention the Commission's own affiliate transaction rules. And since Staff has apparently not requested similar information from any other marketer, it appears that Staff wants to impose these unreasonable, unlawful and discriminatory conditions on LER only -- a position that is again flatly inconsistent with the anti-discrimination provisions of the Commission's own affiliate transaction rules.

Notwithstanding our differences, Laclede seeks to continue to pursue the process for establishing market pricing by supplementing the information it has previously provided to Staff. Accordingly, last week, Laclede invited Staff to meet so that the parties could review and discuss this information. Unfortunately, Staff refused our invitation to meet. Nevertheless, Laclede is voluntarily sending information to Staff by overnight mail for delivery tomorrow.

In terms of the issue involving Laclede's purchases of firm baseload gas from LER on the MRT West Line, we have previously provided Staff with contracts and other information which show that such purchases were competitively priced compared to the prices that were being demanded by unaffiliated suppliers on the same upstream pipeline on which the purchases were made. However, we understand Staff's view that the West Line pricing data is not the relevant benchmark because the agreement gave LER the flexibility to deliver gas into the St. Louis market. While Laclede does not believe it is either necessary or

appropriate to look at pipelines other than the MRT West Line to determine market pricing, it has taken Staff's view of the matter seriously and has accumulated information on the market prices for firm deliveries into the St. Louis market during the relevant ACA periods. This information includes the competitively bid price paid by the marketer for the school aggregation program for firm gas supplies into the St. Louis area during the two subject ACA periods. It shows that the price charged by LER to Laclede for supplies delivered to the city gate was consistent with the price paid by these unaffiliated buyers. (*See e.g.* the pricing provisions of the school aggregation contract that is to be separately transmitted to the Staff by Louie Ervin on behalf of the Missouri School Board Association). This information should satisfy Staff's desire to identify a competitively bid price at the St. Louis city gate.

It is difficult to conceive of a more robust and conclusive piece of evidence that Laclede's purchases from LER were competitively priced and hence prudent, and we would urge the Staff to take this information into consideration and withdraw its proposed disallowance relating to these purchases. At a minimum, I would hope the Staff would not continue to resist meeting with Laclede to discuss this highly relevant information that, by any measure, should eliminate any lingering concerns it has regarding these purchases.

With respect to gas and capacity sold by Laclede to LER, we have previously provided extensive schedules, as well as thousands of pages of supporting documents, detailing the basis and price for Laclede's off-system sales and capacity releases to LER as well as the score of other marketers that Laclede does business with. We have also made our gas supply personnel available on at least two occasions to go over specific transactions and explain the market data which demonstrates why a particular sale made to LER was competitively priced.

We were prepared to go into even greater detail last week at the meeting we requested. Specifically, we were and are willing to go through the sales transactions on a day by day and transaction by transaction basis. Although Staff declined our meeting request, we nevertheless have attached to this letter a sample of the information compiled by Laclede. This information shows that the prices charged by Laclede to LER for gas and capacity are consistent with both the prices Laclede charged to other marketers at the same location, and with the prevailing state of the market at the time of the transaction. When combined with the other information Laclede has previously provided, we believe this information further demonstrates that the Company acted prudently and in accordance with its obligations under applicable Commission rules.

In summary, we hope that Staff will reconsider its position on market pricing, or at the very least be willing to meet with us in the near future to discuss the information we have prepared. I look forward to hearing from you.

Sincerely,

/s/ Michael C. Pendergast

Michael C. Pendergast

**Example of Off-System Sales information that is compiled for Staff to review**

<u>Req. Date</u>	<u>End Date</u>	<u>Location</u>	<u>Price sold to LEER</u>	<u>Market indications</u>
10/1/2005	10/3/2005	Texas Gas Zone 1	\$14.350	No ICE sheet - Gas Daily Daily
10/4/2005	10/4/2005	Texas Gas Zone 1	\$14.450	Based on ICE bid - 5 cents small volume bid
10/5/2005	10/5/2005	Texas Gas Zone 1	\$14.450	Based on ICE bid + 5 cents
10/6/2005	10/6/2005	Texas Gas Zone 1	\$15.000	Based on ICE bid flat
10/7/2005	10/7/2005	Texas Gas Zone 1	\$14.250	Based on ICE bid +15 cents
10/8/2005	10/10/2005	Texas Gas Zone 1	\$13.300	Based on ICE bid flat
10/11/2005	10/11/2005	Texas Gas Zone 1	\$13.220	Based on ICE bid +2 cents, sold Noble Energy @ \$13.22 and OGE @ \$13.25
10/12/2005	10/12/2005	Texas Gas Zone 1	\$13.550	Based on ICE bid +1, sold BP @ \$13.55 and OGE @ \$13.58
10/13/2005	10/13/2005	Texas Gas Zone 1	\$13.600	Based on ICE offer flat
10/19/2005	10/19/2005	Texas Gas Zone 1	\$13.215	Based on ICE bid -2, sold WGR @ \$13.30, BP @ \$13.28, OGE@ \$13.21, OGE@ \$13.23, and Noble @ \$13.26
10/20/2005	10/20/2005	Texas Gas Zone 1	\$13.350	Based on ICE bid flat, sold Noble @ \$13.41, and OGE@ \$13.40
10/21/2005	10/21/2005	Texas Gas Zone 1	\$13.200	Based on ICE bid +5 - Last trade, sold Noble @ \$13.24, and BP@ \$13.26
10/22/2005	10/24/2005	Texas Gas Zone 1	\$12.600	NO ICE sheet - sold Noble@ \$12.60 and OGE@ \$12.59