BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Laclede Gas Company	))	Case No. GT-2003-0032

RESPONSE OF LACLEDE GAS COMPANY TO STAFF'S RECOMMENDATION AND MEMORANDUM

COMES NOW Laclede Gas Company ("Laclede" or "Company") and pursuant to the Commission's August 5, 2003 Order Directing Filing in the above-captioned case, submits its Response to the Recommendation and Memorandum ("Recommendation") filed by the Staff of the Missouri Public Service Commission ("Staff") on August 8, 2003. In support thereof, Laclede states as follows:

1. On August 8, 2003, Staff filed its Recommendation in response to the tariff filing made by Laclede on July 25, 2003. The purpose of Laclede's filing was to implement its agreement with the eligible school entities ("ESEs") for the treatment of capacity costs under the experimental school aggregation provisions of Section 393.310 RSMo Supp. 2002 (the "Statute"), as recently amended.

2. In its Recommendation, Staff reiterates many of the same arguments and assertions it raised in its initial July 29, 2003 Response to the Company's tariff filing. Since most of those arguments were previously addressed in Laclede's August 1, 2003, Reply to Staff's Response, Laclede will limit this response to the relatively few matters that have been introduced by Staff for the first time in its most recent pleading.

3. Procedurally, it appears that Staff agrees with Laclede that the Commission must either approve, reject or suspend Laclede's tariff filing. In its July 30, 2003 Response, Staff had indicated that the Commission should approve the tariff with

modifications. In its August 8th pleading, however, Staff has amended its recommendation to state that the Commission either suspend or reject the tariff filing. Although Laclede opposes Staff's recommendation, Laclede agrees that suspension or rejection are two of the only three lawful choices available to the Commission.

4. Regarding the substance of Staff's position, Staff's criticism of the weather factors used in calculating the ESE's capacity obligations is misplaced. On pages 6 and 7 of its Recommendation, Staff implies that too little capacity may have been allocated to the ESEs, because the baseline month used for the calculation, January 2001, "was not a particularly cold month." Laclede sees three errors in this analysis. First, Staff mistakenly focuses on degree days for the <u>calendar</u> month of January 2001. Since the sales used in the Company's analysis were for the Company's January 2001 billing cycles, the relevant degree days are average <u>billing cycle</u> degree days and not calendar degree days. Average billing cycle degree days for January 2001 were 1,267, which was 173 degree days, or nearly 16%, colder than normal.

5. Second, in determining the amount of capacity reserved for the ESEs, it does not matter which month is chosen as the baseline. Laclede calculated the amount of capacity by determining the relationship between the available capacity and the therms sold in a given month. Specifically, Laclede divided the available capacity by the therms it sold during the January 2001 billing month to obtain a quotient. Had Laclede used a warmer than normal month to determine this relationship, the lower number of therms sold during such month would have simply resulted in a higher quotient. Hence, there would not be a substantial impact on the capacity attributed to the ESEs.

6. Third, and most important, Laclede used this same approach at the April 2003 hearing for calculating the pipeline capacity reserved for ESEs. At that time, Laclede, Staff, and Public Counsel all agreed that the amount of pipeline capacity cost identified by Laclede to avoid a financial detriment to Laclede and its customers was appropriate. It is difficult to understand why Staff supported this approach in April, but is questioning it now.

7. On page 7 of its Recommendation, Staff raises concerns over Sections F and G of the tariff. The issues covered in these sections were agreed to by the parties and approved by the Commission in October 2002, and are not at issue either here or in the case heard on April 15, 2003, in which all parties agreed that the sole issue involved was pipeline capacity. Further, Laclede disagrees with Staff's statement at the end of the middle paragraph on page 7 that "The tariffs are no longer explicit about the term of the capacity release." The term of the capacity release provision is the same as the term of the experiment, and ends on June 30, 2005, in accordance with Section L of the tariff.

8. Finally, on page 6 of the Recommendation, Staff states that Commission should not approve the provision in paragraph J of the tariff, permitting Laclede to avoid absorbing the costs of capacity reserved for the ESEs, but should instead determine who pays for such capacity in a future ACA proceeding. Laclede believes, however, that the agreement reflected in the tariff is fair to all parties, and should be approved now, not later. Although the amendment to the Statute frees the ESEs from responsibility for the pipeline capacity reserved for them by Laclede, such ESEs will nevertheless pay for a large majority of such capacity under Section E of the tariff. Moreover, while Laclede is entitled to retain all of its capacity release revenues, Laclede will nevertheless contribute

to its other customers, through the PGA, all of the revenues obtained from the releases of such capacity to the ESEs. Laclede believes that these elements of the tariff represent a substantial benefit for its customers that warrants approval of the agreement Laclede has reached with the ESEs and reflected in the tariff. If the Commission concurs, there is no reason why it should not also approve an integrally-related provision of the agreement that does no more than ensure that all parties will live with the results of that agreement. In fact, it is just as appropriate to approve in advance the provision that permits Laclede to avoid absorbing ESE capacity, as it is to approve in advance the other elements of the agreement that bestow substantial benefits upon Laclede's other customers.

WHEREFORE, for the foregoing reasons, Laclede Gas Company respectfully requests that the Commission issue an order rejecting Public Counsel's and Staff's recommendations and approving Laclede's revised tariff sheets 1-a, 41-43 and 45.

Respectfully submitted,

LACLEDE GAS COMPANY

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Certificate of Service

The undersigned certifies that a true and correct copy of the foregoing Response was served on all counsel of record in this case on this 12th day of August 2003 by hand-delivery, electronic mail or by placing a copy of such Response, postage prepaid, in the United States mail.

Michael C. Pendergast, mvl