Exhibit No.:	
Issue:	**Weather Mitigation and Rate Design**
Witness:	**Michael T. Cline**
Type of Exhibit:	**Surrebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No.:	**GR-2002-356**
Date:	**August 23, 2002**

LACLEDE GAS COMPANY

GR-2002-356

SURREBUTTAL TESTIMONY

OF

MICHAEL T. CLINE

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules.	)))	Case No. GR-2002-356

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director - Tariff and Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony, consisting of pages 1 to 19, and Schedule No. 1 to 2, inclusive.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Michael T. Cline

Michael T. Cline

Subscribed and sworn to before me this 22nd day of August, 2002.

Joyce L. Jansen

JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
ST. CHARLES COUNTY
My Commission Expires: July 2, 2005

TABLE OF CONTENTS

SURREBUTTAL TESTIMONY OF MICHAEL T. CLINE

Q. Please state your name and business address for the record.

A. My name is Michael T. Cline and my business address is 720 Olive St., St. Louis, Missouri, 63101.

Q. Are you the same Michael T. Cline who has previously filed direct and rebuttal testimony in this proceeding.

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. I will respond to the rebuttal testimony filed by Ryan Kind and Hong Hu on behalf of the Office of the Public Counsel ("Public Counsel") and by James Russo on behalf of the Commission Staff as they relate to the Company's proposed Weather Mitigation Clause ("WMC") and alternative rate design recommendations.

RESPONSE TO PUBLIC COUNSEL WITNESSES

Q. Do you have any general observations regarding the rebuttal testimony filed by Ryan Kind and Hong Hu on behalf of the Office of the Public Counsel?

A. Yes. In their rebuttal testimony, both witnesses either criticize the Company's proposed WMC or the Company's initial rate design proposal in this case on various grounds. Like the Company, they, together with other Public Counsel witnesses, have also offered what they characterize as an alternative proposal for addressing the weather mitigation problem identified in the Company's direct and rebuttal testimony in this case. As a result, the Commission now has before it three separate proposals for addressing weather mitigation, including: (a) the Company's proposed WMC; (b) the Company's proposed weather mitigation rate design, involving offsetting rate blocks in the Company's PGA and distribution rates, which was presented in my rebuttal testimony; and (c) Public Counsel's proposal to implement a gas supply incentive plan and move a small amount of recovery of distribution costs to the first rate block of the Company's distribution rates. The specific merits of each of these proposals have and will be discussed at length in the rebuttal and surrebuttal testimony of the parties. For the Commission's convenience, however, I have prepared the following chart to compare what the two competing rate design proposals would do in terms of the various considerations that both the Public Counsel and Company have raised in connection with them.

Q. Have you included a comparison of all three proposals in the chart?

A. I did not include the Company's proposed WMC in this comparison since, based on the response of the Staff and Public Counsel to such proposal, the Company has indicated that it is prepared to recommend the Company's rate design proposal as the preferred alternative. A comparison of the two rate design proposals shows the following:

COMPARISON OF RATE DESIGN PROPOSALS

Criteria	Laclede Proposal	Public Counsel Proposal
Balance of Customer and Company benefits	Favors the customer	No bias in favor of the customer
Cost support	Responsive to relatively fixed nature of Company's costs	Barely addresses the relatively fixed nature of the Company's costs
Impact on Low Use Customers Assuming Normal Weather	Residential-None Commercial & Industrial-some decrease to small customers	Residential-Small increase to small customers Commercial & Industrial-not addressed
Over Recovery of Gas Costs	Reduced	No Change
Commodity Price Volatility	Already mitigated by existing program	Already addressed by Company
Price Signals/Conservation	Unaffected	Affected in manner inconsistent with Public Counsel criteria
Elimination of Company Losses and Profits Due to Warmer Than Normal Or Colder Than Normal Weather	Eliminates 85% of weather-related losses; Eliminates 100% of weather-related profits in second rate block	Residential-eliminates only 13% of weather-related losses and profits C&I-not addressed

As the Commission can see from the above chart, the Company's alternative rate design proposal, addresses most, if not all, of the criteria discussed by the parties in a manner that is far superior to Public Counsel's proposal. Given this fact, I believe the Commission should not hesitate to approve the Company's proposal.

Q. I noticed in the above chart that you address the improvement in gas cost recoveries which you first introduced in your rebuttal testimony. Please explain.

A. Assuming that in warmer than normal winters gas costs are decreasing to levels not initially captured by the Company's Current Purchased Gas Adjustment ("CPGA") filings, the Company generally over-recovers gas costs under the existing rate design. However, under the Company's blocked PGA proposal, the higher second block rate would produce a revenue reduction from the drop in general service therm sales that would be greater than what would occur if such sales reduction reflected the unblocked PGA rate billed for all therms under the existing rate design. Thus, the greater revenue reduction caused by the higher second block PGA rate would tend to offset gas cost over-recoveries that would otherwise likely occur in the warmer than normal winter, thereby leading to a smaller net over-recovery of gas costs by the end of the Company's Actual Cost Adjustment ("ACA") year. Similarly, assuming that in colder than normal winters gas costs are increasing to levels not initially captured by the Company's CPGA filings, the Company generally under-recovers gas costs under the existing rate design. However, under the Company's blocked PGA proposal, the Company's additional general service therm sales would be billed at a second block PGA rate that is higher than the existing unblocked PGA rate billed for all therms under the existing rate design. Such higher second block PGA rate would tend to offset the gas cost under-recoveries that would otherwise likely occur in the colder than normal winter, thereby leading to a smaller net under-recovery of gas costs by the end of the Company's ACA year.

Q. Turning to the specific assertions made by the witness for Public Counsel, on page 6, lines 4 through 6, of his testimony, Mr. Kind states that adjustments to future rates pursuant to the WMC would be made through the PGA charge. Is this true?

A. No. Even though the Company proposed that WMC rate adjustments would be synchronized, when necessary, with the Company's PGA rate changes, the Company did not suggest in its WMC proposal that the PGA clause be used as a vehicle for making the rate adjustments associated with the WMC.

Q. On pages 7 and 8 of his rebuttal testimony Mr. Kind suggests that the Company's proposed WMC would permit the Company to charge a rate above "the legally tariffed rate". Do you agree with Mr. Kind's suggestion?

A. No. Before the customer is ever charged for either an upward or downward rate adjustment made pursuant to the WMC, a tariff reflecting the rate adjustment would be filed and approved by the Commission, much in the same way that it currently approves PGA rate changes. As a result, only the future consumption of the customer would be charged at the higher rate, a rate that would be on file with the Commission prior to the period during which the customer would use gas.

Q. On pages 9 and 10 of his rebuttal testimony, Mr. Kind takes issue with the statement you made in your direct testimony regarding the Company's entitlement to "adequate" recovery of its fixed non-gas costs. Is there any merit to Mr. Kind's remarks?

A. Whether one chooses to say that the Company is entitled to an "adequate" recovery of its costs or is entitled to a "reasonable opportunity" to recover costs, my point was and continues to be that the Company receives neither in the absence of a weather mitigation measure such as those proposed by Laclede in this case. Under the present rate structure, the Company has literally ***no*** opportunity to recover its approved costs of service when it experiences the kind of extraordinarily warm weather that occurred this winter. As discussed by Laclede witness Spotanski, such weather-related shortfalls are so great that it is literally impossible to find alternative ways to offset them. The end result is that the Company ends up absorbing millions of dollars in costs that the Commission may have just determined were reasonable and necessary to the Company's provision of mandated utility services -- and all because of a factor -- weather-- that is completely beyond the Company's ability to control. Notwithstanding Mr. Kind's somewhat derogatory implications about my knowledge of ratemaking theory, I can see no legitimate regulatory principle or policy that is served by such a result. Moreover, the vast majority of regulatory bodies that have removed weather as a factor in the recovery of fixed gas costs, as well as the substantial number that have done the same thing for distribution costs through various weather mitigation measures, would apparently agree. Apparently, they have matriculated to something more advanced than Mr. Kind's version of an "Introduction to Utility Regulation 101" course.

Q. Based on your previous response, is it fair to say that the Company wants a guarantee that it will recover its fixed costs?

A. No. The Company recognizes that it cannot and will not be guaranteed recovery of its fixed costs, regardless of whether the Company's WMC or weather mitigation rate design proposal is approved. As Mr. Spotanski notes in his surrebuttal testimony, the Company will continue to be subject to a variety of risks, cost increases and other potential losses that are completely unaddressed by the Company's proposed weather mitigation measures. And even the impact of weather is not entirely eliminated under the proposed WMC, much less under the Company weather mitigation rate design proposal. In fact, under the Company's weather mitigation rate design proposal, in a 20% warmer than normal winter the Company could still under-recover nearly $2 million from residential customers alone.

Q. On page 12 of his rebuttal testimony, Mr. Kind refers to discussions the Company has had with Public Counsel regarding a fixed bill service option. What is the status of those discussions at this time?

A. In compliance with the Stipulation and Agreement in the Company's last rate case, the Company has spent considerable time in the development of a workable fixed bill option. The Company has had numerous discussions with both the Staff and Public Counsel and has attempted to address their concerns. In response to Staff's and Public Counsel's latest list of concerns, the Company sent both parties a modified proposal earlier this summer to which the Company has received no substantive feedback.

Q. On pages 12 and 13 of his rebuttal testimony, Mr. Kind suggests that the Company has never "presented any evidence in this case that its lack of a WMC has ever led the Company to be anywhere close to the dire financial situation that could cause it to be unable to fulfill its public service obligation of providing safe and adequate service". Do you agree?

A. Absolutely not. The Company has quantified on numerous occasions the millions of dollars that it has lost due to warmer than normal weather in recent years. Certainly, the Public Counsel has to recognize that at some point these kinds of losses put a serious financial strain on the Company that threatens its ability to fulfill its public service obligations. As other Company witnesses also explain, I am aware that just recently Moody's Investor's Service cut the Company's ratings on various debt securities, in part because the Company's "earnings and cash flow remain very sensitive to weather fluctuations". Furthermore, Moody's warned that further cuts may be warranted if the Company is unable to solve its weather problem. All of these considerations demonstrate the need for one of the mitigation measures proposed by the Company.

Q. On pages 14 through 19 of his rebuttal testimony, Mr. Kind discusses the relatively small benefits that would accrue to individual customers as a result of the Company's WMC proposal. The upshot of Mr. Kind's discussion is that such benefits are small in relation to both the earnings stabilization benefits that would be realized by the Company and the price risk volatility to which customers are exposed through the PGA clause. How do you respond to these concerns?

A. First, I fail to see why Mr. Kind insists that a prerequisite for his support for a proposal is that Company and ratepayer benefits must be commensurate. If a proposal is fair to the Company and either does not harm ratepayers or even benefits them, as it does in this case, such a proposal should be endorsed and vice versa. Second, with respect to price risk volatility, Mr. Kind should recognize that the Company has already addressed this issue through its purchase of financial hedging instruments, an initiative undertaken by the Company outside the context of this rate case and without the kind of incentive program proposed by Public Counsel. Such initiative is explained in greater detail by Company witness Mathews.

Q. On page 24 of his rebuttal testimony, Mr. Kind mentions that he has seen letters to the editor in the St. Louis Post-Dispatch where customers were apparently outraged by the Company's "request to be allowed to seek compensation for its decline in earnings during the 2001/2002 heating season". Is that request relevant to this discussion?

A. No, it is not. I believe that the letters to which Mr. Kind refers were directed at the Company's request for an Accounting Authority Order ("AAO") pertaining to weather. That is much different than the Company's proposed WMC and weather mitigation rate design proposal in this case since both would be implemented on a prospective basis. Furthermore, if opinions expressed in the Post-Dispatch are going to be addressed in this proceeding, the Commission should give serious consideration to the endorsement the Post-Dispatch gave to the Company's proposed WMC. A reproduction of such editorial is attached to my testimony as Schedule MTC Surrebuttal-1.

Q. On pages 24 and 25 of his rebuttal testimony, Mr. Kind recommends that if the Company's proposed WMC would be approved by the Commission over OPC's objection, "it should only be approved on an experimental basis". Is such a condition appropriate?

A. No. By making it seem temporary, putting such a condition on either the WMC or the weather mitigation rate design proposed by the Company would effectively destroy any value that approval of such measures would have in preserving or restoring the Company's credit ratings. Nor has any valid reason been given that would justify such a condition

Q. On page 27 of his rebuttal testimony, Mr. Kind alleges that without a class cost of service study, your statement that the Company's non-gas costs are relatively fixed "is nothing more than informed conjecture". What is your response?

A. As Laclede witness Raab stated in his surrebuttal testimony, a class cost of service study is not needed to reach such a conclusion. And for that matter, not even Mr. Kind's "Introduction to Utility Regulation 101" course is required. Instead, a simple assessment of the resources necessary for the Company to stand ready to provide reliable utility service each day throughout a winter and from one unpredictable winter to the next is all that is needed to conclude that, like it or not, virtually all of the Company's distribution costs fluctuate with weather. As the Company has stated on several occasions in the past, the Company's distribution costs do not fluctuate with the weather. For example, the Company does not reduce its employee levels, physical plant, number of utility trucks or other assets used to provide service just because its sales volumes have decreased temporarily as a result of one winter season being warmer than another. Those resources have to be on hand when needed. When the weather is warmer than normal the same amount of mains and services stay in the ground, the same number of meters are still installed at houses, meter readers still walk their routes, servicemen still check for leaks and the Company's computer system doesn't shrink just because there are less gas volumes to bill to customers.

Q. Are you aware of any studies that would support your conclusion that the Company's non-gas costs are relatively fixed?

A. Yes. In proceedings before the Federal Energy Regulatory Commission ("FERC"), interstate natural gas pipelines and FERC Staff have routinely prepared studies that indicate that virtually all pipeline costs are fixed. Since there are many similarities in the cost structures of local distribution companies, like Laclede, and pipelines, I believe these studies support my conclusion that the Company's non-gas costs are relatively fixed.

Q. Short of a full-blown class cost of service study, have you prepared any numerical analysis of the Company's distribution costs that would support your conclusion?

A. Yes. I have attached to my testimony, as Schedule MTC Surrebuttal-2, a chart which demonstrates that the Company's costs are relatively fixed and do not fluctuate with weather or throughput.

Q. Please explain your analysis.

A. First, I examined the Company's actual utility operating expenses for fiscal years 1994 through 2001. Such expenses are comprised of four major categories: Other Operation expense, Maintenance expense, Depreciation and Amortization and Other Taxes excluding GRT.

Q. Do these expenses cover your entire cost of service?

A. No. These costs exclude the Company's capital costs and income taxes.

Q. Why did you exclude these costs? Are these costs not fixed?

A. Certainly the cost of long term debt and preferred stock are fixed. And equity return applies primarily to fixed investment costs such as mains and services that are not in any way dependent on the weather.

Q. What about the variability of return as it relates to those items in rate base that are not truly fixed, such as gas inventory balances and cash working capital?

A. Those items would account for only approximately 6% of the Company's total cost of service, only a portion of which is variable because some consistent level of funds is continually employed for this purpose.

Q. Some of these categories you mentioned earlier require additional explanation. What do you mean by Other Operation expense?

A. These expenses include all of the Company's operation expenses with the exception of gas expenses. Expenses in this category include the costs incurred to check for gas leaks and respond to customer inquiries and various other costs, such as administrative and general costs. The only expenses I excluded were pension and uncollectible expense. Pension expense was excluded because different accounting methodologies were used in the past that caused those expenses to fluctuate from year to year. With the agreement in this case, however, such fluctuations should be largely eliminated in the future. Uncollectible expense was also excluded because it has fluctuated and will continue to fluctuate in the future. However, I should note that such expense accounts for less than 5% of the Company's overall cost of service.

Q. Please explain what you mean by Other Taxes excluding GRT.

A. These are taxes other than income taxes and primarily include payroll and property taxes. I excluded gross receipts taxes ("GRT") from this category because they are a direct flowthrough and are simply a function of how much the Company bills a customer.

Q. What was the next step in your analysis?

A. I plotted these expenses over time on the same chart with the Company's total throughput. Throughput is represented by the heavy black line and is plotted in reference to the right axis and expenses are plotted in reference to the left axis.

Q. What does this chart show?

A. You can see that even though throughput moves up and down with weather over this eight year period, the Company's expenses are generally steadily increasing and appear to have no correlation to weather. For example, even though throughput was 20% lower in 2000 compared to 1996, expenses, rather than declining over this same period of time, actually increased by 8%. In view of my expense study, the cost classifications done for similar companies in FERC proceedings and an understanding of the types of costs the Company incurs just to stand ready to provide reliable utility service on demand, I believe it is fair to say my statement that the Company's costs are relatively fixed is based on more than "informed conjecture".

Q. On pages 31 through 32, Mr. Kind discusses the commodity price risk faced by customers. Do you disagree with Mr. Kind that the Company's commodity cost of gas should be addressed?

A. As I stated above, I believe that the Company is already addressing such cost and for that reason, we believe that Mr. Kind's objection to the WMC as it relates to his concern about the natural gas prices customers pay is unfounded. Nevertheless, I am in agreement with Mr. Kind that some type of an incentive program in this area would be appropriate as an inducement for companies to "stretch", as Mr. Kind says, in controlling gas commodity costs. We are certainly willing to work with Public Counsel on developing a mutually acceptable proposal. However, given the extensive efforts that the Company has already made to provide price protection for its customers this winter, there is no need to hold the Company's weather mitigation proposals hostage to the development of a gas supply incentive plan in this case. Accordingly, Laclede would have no objection to the Commission establishing a separate docket to consider Public Counsel's proposal and the Company will commit right now to cooperating in an expeditious resolution of such a proceeding. In the meantime, however, the Commission should approve the Company's weather mitigation rate design.

Q. You stated earlier that the Company has already addressed commodity price risk. When did the Company first address this risk?

A. As explained by Company witness Mathews, the Company began developing its hedging strategy in the early part of this past winter. The Company even unilaterally undertook the initiative to modify its PGA clause in the summer of 2001 to specifically provide for the flow-through of costs and benefits incurred in conjunction with an anticipated increase in reliance on financial instruments.

Q. Despite your recommendation that incentive plans be considered in a separate proceeding, if the Commission decides to address Public Counsel's proposal in this proceeding, does such a proposal provide the weather mitigation needed by the Company?

A. No. During periods of warmer than normal weather, even under Public Counsel's proposal, the Company's non-gas revenues are adversely impacted by lower throughput resulting from such weather. During these periods, natural gas prices tend to decline to lower levels as a result of excess supply caused by the lack of demand. Under this scenario, it is very unlikely that the Company's hedged natural gas supply portfolio would generate any cost savings compared to regular market prices. Under Public Counsel's proposed plan, if gas supply savings are not achieved, the Company only benefits to the extent of the block shift proposed by OPC witness Hong Hu. I quantify such benefit later in my testimony when I address her rebuttal testimony.

Q. Isn't it possible that some level of gas supply savings could be achieved even if the weather is warmer than normal?

A. Although it is possible, it isn't very likely. Furthermore, as I stated before, because natural gas prices tend to decline to lower levels during periods of warmer weather, it is very possible that Public Counsel's gas cost benchmark would land in Tier 1 of its plan, i.e. below \$3.00 per MMBtu. If this occurs, the Company again is not eligible to retain any of the gas cost savings.

Q. Does Commission approval of either the Company's proposed WMC or its weather mitigation rate design as proposed in your rebuttal testimony conflict in any way with the Company's implementation of its risk management strategy?

A. No, just the opposite is true. The Company has taken it upon itself to carefully develop a risk management strategy in order to mitigate the customers' largest exposure, i.e. commodity price risk. To that end the Company needs financial stability during warm weather periods and declining price environments when considerable cash is needed to fund margin requirements on existing fixed price positions. Equally important, the Company needs cash to fund the purchases of future fixed price positions on a timely basis when low prices that are typically associated with mild winters can be locked-in to the benefit of the Company's customers. Approval of either of Company's proposals to mitigate weather risk would improve the financial stability needed for the Company to implement its risk management strategy during these warm periods. As discussed below, however, such stability would not be afforded by Public Counsel's proposal.

Q. Turning now to OPC witness Hong Hu, on page 7 of her testimony she sets forth Public Counsel's proposed Residential General Service revised block rates that are a part of Public Counsel's "comprehensive" proposal. To what extent would the Company's fixed distribution cost recovery for customers billed under this rate schedule be improved?

A. Public Counsel's proposal is sorely deficient. Based on existing rates, less than 13% of the distribution revenues the Company would lose in a warmer than normal winter from residential heating customers under the Company's existing rate design would be avoided by Public Counsel's proposed rates.

Q. Public Counsel also contends that the residential rate design change reflected in your January 25, 2002 rate filing would send the wrong price signal to customers and that the long-term effect will be congestion of the distribution capacities. Do you agree?

A. No. Because the Company's distribution costs are relatively fixed, the Company's marginal cost of selling gas to customers is the cost of gas itself, exclusive of any distribution costs. Since the residential rate design reflected in the Company's January 2002 filing reduces the Company's tail block rate, the price signal to the customer has actually improved compared to what it is today. Furthermore, even if the Commission agrees with OPC's concept of a proper price signal, the Company has overcome OPC's objection through the rate design alternative I proposed in my rebuttal testimony.

Q. Please explain.

A. Under the Company's alternative proposal, the price signal sent by the Company's tail-block rate would be unaffected because the decrease in the second block distribution charge would be offset by an increase in the PGA charge in the second block. Thus, since the price for an additional therm in the second block remains the same, price signals cannot be affected.

RESPONSE TO STAFF WITNESS RUSSO

Q. On pages 1 through 4 of his rebuttal testimony, Mr. Russo takes issue with the Company's statements that under the Company's existing rate design there is a mismatching of revenues and costs. Do you understand the significance of Mr. Russo's arguments?

A. No. Apparently, Mr. Russo does not agree that return on equity is a cost. From his point of view, the Company's revenues cover its costs, excluding return on equity, and whatever is left over is considered return to equity shareowners. As Mr. Spotanski explains in his surrebuttal testimony, however, Mr. Russo comments are simply inconsistent with the Staff's long-standing views that return on equity is indeed a cost of service.

Q. On page 6 of his rebuttal testimony, Mr. Russo makes a point of the fact that for Laclede there have been no recent Commission decisions on weather since the "Company has stipulated to dollar amounts without coming to any agreement with Staff on weather of adjustment methodology." What is your reaction to Mr. Russo's argument?

A. I certainly cannot disagree with Mr. Russo from a technical standpoint, however, there is no reason for this to be an issue in this case since the parties have agreed on what amount of heating degree days should be used for rate design purposes in this case, and as Laclede witness Raab indicated in his rebuttal testimony, the Company's is willing to use Staff's method for turning those degree days into billing determinants. As such, this argument should not be used as a reason for not moving forward with a WMC. Moreover, should the Commission chose to adopt the weather mitigation rate design that the Company has recommended, this should not be an issue at all.

Q. On page 10 of his rebuttal testimony, lines 16 through 25, Mr. Russo appears to be troubled by the fact that there are areas other than weather that can impact the Company's earnings. Do you agree?

A. Yes. As Mr. Raab and Mr. Spotanski have explained in their testimony, this possibility would exist regardless of whether one of the Company's weather mitigation measures was approved.

Q. Does this conclude your testimony?

A. Yes, it does.

LACLEDE GAS

How cold was it?

MARK TWAIN was the first to observe that "everyone talks about the weather, but nobody does anything about it." Mr. Twain, meet Laclede Gas Co.

Tuesday's ice storm notwithstanding, St. Louis just enjoyed one of the warmest winters in its history — so warm, in fact, that Laclede wants the Missouri Public Service Commission to classify the winter as an "extraordinary event" for accounting purposes. With the same fixed costs for Laclede during warm weather as during cold weather, and less revenue to cover those costs, a warm winter has the same impact on a gas utility's costs as an ice storm would for an electric utility. Therefore, Laclede wants to be able to recover those costs during some future rate case.

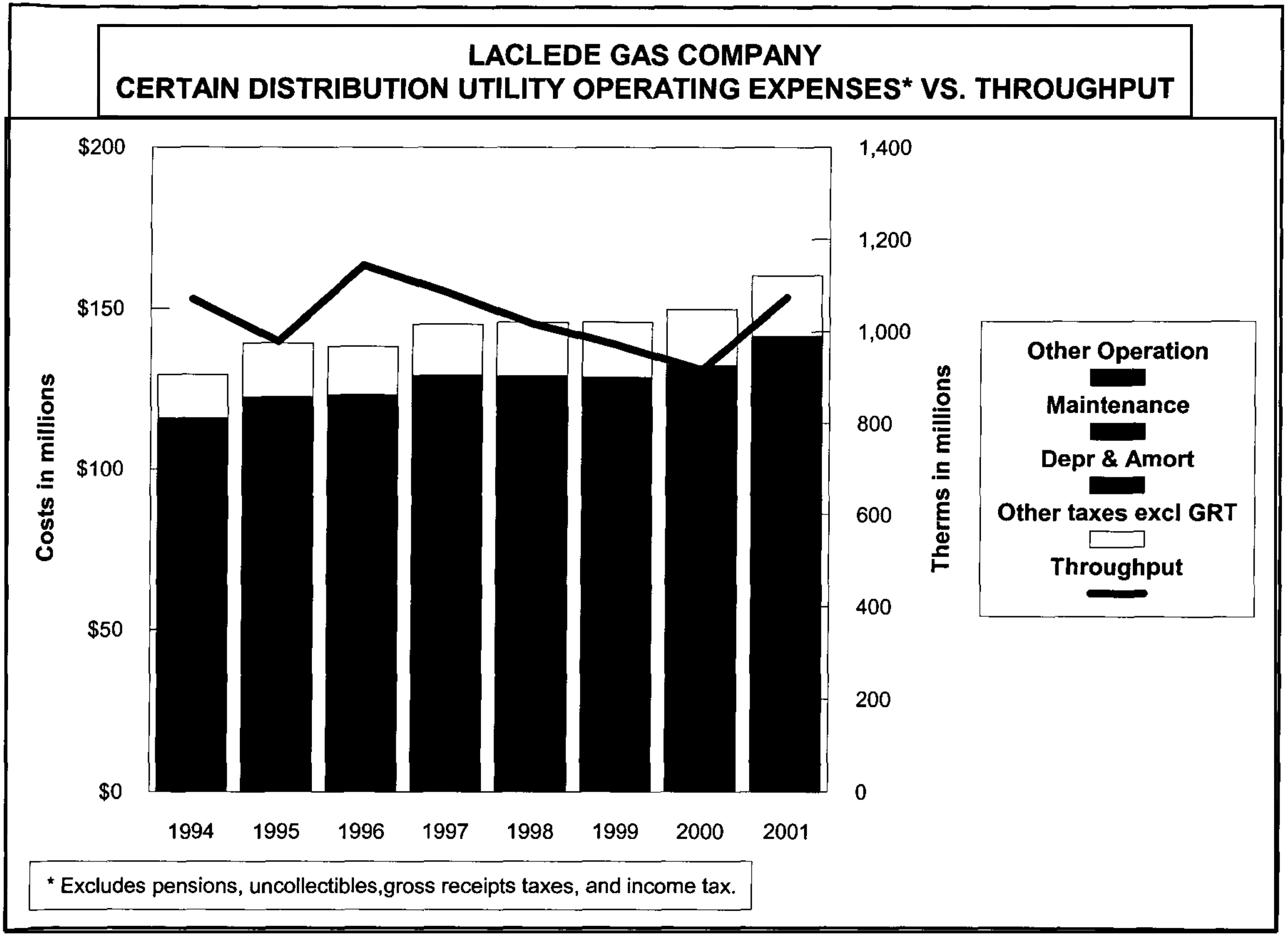
"Assuming a normal winter, the cost to most consumers would be no more than $10 to $15 a year," said company spokesman Richard N. Hargraves. "People want to talk about last year but they forget that the decade of the 1990s was one of the warmest on record. All we're trying to do is level our costs."

People talk about last year for good reason. "Cold! If the thermometer had been an inch longer we'd all have frozen to death," as Mr. Twain also said. It was as cold as this year was warm, and Laclede racked up a profit of $18.4 million, up 93 percent from the previous year. This "extraordinary event" argument might have been more palatable a year ago.

"Essentially, they're trying to pass on costs for gas they didn't sell," said John Coffman, acting Missouri Public Counsel. His office represents consumers before the PSC, and Mr. Coffman said it would oppose Laclede's request.

Both Mr. Hargraves and Mr. Coffman make decent points. Laclede has to have the same storage capacity, the same fleet of trucks, the same crews available in warm weather as cold. But if it doesn't sell the gas, the company must absorb the cost. Mr. Coffman argues that risk comes with the territory of selling gas; Mr. Hargraves says it's a fixed cost that a regulated utility should be allowed to recover.

Rather than decreeing an "extraordinary event" after the fact, the PSC would be better advised to consider a "weather clause" for natural gas utilities. That system takes a "normal" winter as a basis and would save consumers money during colder-than-average winters, and save Laclede money in warmer-than-average winters. Twenty-two states have such rules; Missouri should make it 23.



Schedule MTC Surrebuttal-2