

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's	)	
Transfer of its Gas Supply Function to a	)	
Separate Corporation.	)	Case No. GO-2002-1099

**STAFF'S STATUS REPORT**

COMES NOW Staff of the Public Service Commission of Missouri, and for its Status Report in this case states:

1. On July 16, 2002, the Commission issued its order establishing this case to investigate the transfer of Laclede Gas Company's (LGC) gas supply department to Laclede Energy Services (LES), an affiliated subsidiary of Laclede Holding Company (LHC). In the order the Commission also directed Staff to file a status report in the case by November 13, 2002.

2. Staff had hoped to file its final report in this case by this date. However, as the Commission is aware, Staff has submitted data requests to Laclede concerning LES' relationship with Laclede Energy Resources (LER), an unregulated marketing affiliate of both LGC and LES. LGC has refused to provide responses to certain of these DRs, and Staff's motion to Compel responses is currently pending before the Commission. Although the Staff needs the information sought in the unanswered DRs before it can fully analyze Laclede's structure, it will outline below the current status of the investigation.

3. Below are the issues Staff noted for investigation in its motion to open this docket, and Staff's preliminary observations:

**\*\*Denotes Highly Confidential Information\*\***

a. *Whether the Commission has jurisdiction over the proposed transaction pursuant to §§386.250 and 393.190 RSMo (2000).* The Commission's authority to regulate the sale, transfer, or disposition of a utility's system or assets is broad. *State ex rel. Martigney Creek v. PSC*, 537 S.W.2d 388 (Mo. banc 1988). The jurisdiction of the Commission over this transaction is determined by statute. The Commission has statutory responsibility to approve the sale, assignment, lease, transfer, mortgage or disposal of the whole or any part of a utility's franchise, works or system that is necessary or useful in the performance of its duties to the public. In accord with Section 393.190, if a utility does not obtain a Commission order the transaction is void.

b. *Whether there is any statutory requirement for Laclede to obtain Commission permission prior to transfer of a major function from the regulated company to a potentially non-regulated company.* Section 393.190 RSMo (2000). Section 393.250 RSMo (2000) provides that any reorganization of a gas corporation shall be subject to the supervision and control of the Commission, and the Commission must authorize such corporate activity.

c. *What impact the transfer may have, if any, on the Staff's ability to have access to any and all information including, but not limited to: fuel purchase and fuel trading information, information on long-term and short-term sales to all affiliates, and gas supply procurement information for analysis purposes.* LGC resists providing information needed to judge the ability of LES and LER \*\* ~~IC~~-----

HC-----

HC-----

HC-----\*\* Information needed to gauge the efficiency and effectiveness of the affiliate structure has not been forthcoming.

d. *Whether the proposed transaction will be detrimental to the public interest of Laclede's regulated Missouri customers.* The proposed transaction is detrimental to the public interest at least to the extent that it \*\* HC-----  
HC-----  
HC-----\*\*

e. *Whether this transfer will have any likelihood of increasing gas supply costs and, thus, have an impact on the rates and charges to Laclede customers for natural gas.* \*\* HC-----  
HC-----  
HC-----\*\* it is quite possible that the costs charged to captive ratepayers will increase as a result.

f. *Whether Laclede has violated the provision of the Stipulation and Agreement in Case No. GM-2001-342, which says that Laclede Gas shall not sell, lease, assign or transfer to any affiliate or third party any of its utility assets that are used and useful in the performance of Laclede's public utility obligations without obtaining Commission approval.* \*\* HC-----  
HC-----  
HC-----\*\* and may violate the terms of the Commission's order in Case No. GM-2001-342.

g. *Whether this transfer could affect the credit rating or financial stability of Laclede Gas Company if the gas purchasing company has financial losses. In other words, whether the acquisition has a negative impact on Laclede's cost of capital. This inquiry should include an analysis of how any negative impacts would be tracked and quantified, and how Laclede proposes to treat such costs in the setting of its future rates.* \*\* HC-----

HC-----

HC-----\*\* More information is needed to analyze this issue adequately.

h. *Whether, in the absence of any current contractual agreements defining the relationship between Laclede and the non-regulated LES, there is any obligation for LES to make prudent purchases on behalf of Laclede and its captive customers.* \*\* HC-----

HC----- \*\* Staff cannot make an adequate analysis.

i. *What are the potential financial consequences to Laclede and its customers should LES sell or transfer the gas supply function to another corporation? Would LGC have any control over any contractual arrangements between LES and outside buyers or suppliers?*

\*\* HC-----\*\*

j. *Are there any detriments from potential diversion of natural gas away from Laclede customers to higher paying customers?* \*\* HC-----

HC-----\*\*

4. Staff has a substantial draft report on the observations and analyses that it has completed to date, albeit incomplete due to the Company's refusal to provide necessary information. Staff proposes to provide LGC with a draft copy late this week or early next week, so that LGC can review the document for proprietary information that might need to be redacted in the final document. Staff proposes to complete a final report two weeks after LGC provides information pursuant to the discovery order of the Commission, or within two weeks of the Commission order if discovery is denied.

WHEREFORE, Staff asks the Commission to accept this status report, and to rule the pending discovery motions.

Respectfully submitted,

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**/s/ Thomas R. Schwarz, Jr.**

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### **Certificate of Service**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 13th day of November, 2002.

**/s/ Thomas R. Schwarz, Jr.**

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