BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Purchased Gas Adjustment Tariff Revisions to be Reviewed in Its 2000-2001 Actual Cost Adjustment.	))))	Case No. GR-2001-387
In the Matter of Laclede Gas Company's Purchased Gas Adjustment Factors to be Reviewed in Its 1999-2000 Actual Cost Adjustment.	))))	Case No. GR-2000-622

LACLEDE'S STATEMENT OF POSITIONS

COMES NOW Laclede Gas Company ("Laclede" or "Company"), and for its Statement of Positions on the List of Issues, states as follows:

1. On January 17, 2003, Laclede, Staff and Public Counsel filed their List of Issues and Order of Witnesses and Cross-Examination. Set forth below are Laclede's positions on each of the issues set forth in the List of Issues.

ISSUE A:

What were the controlling Price Stabilization Program ("PSP") Tariff and Program Description terms for the October 1, 2000 through September 30, 2001 ACA period?

Laclede's Position:

The controlling PSP Tariff and Program Description terms for the October 1, 2000 through September 30, 2001 ACA period (the "2000-01 ACA Period") were those terms set forth in Laclede's PSP Tariff and Program Description in effect during the 2000-01 ACA Period. These include Second Revised Tariff Sheet 28-e, effective on July 26, 1999, as revised by Third Revised Tariff Sheet 28-e, which became effective October 12, 2000, Original Sheets 28-f and g, each effective on July 26, 1999, and a four-page document entitled "Laclede Gas Company Description of Incentive Price Stabilization Program" (the "Program Description"). These documents are the central focus of this case, and can be found at Schedule 1 to the direct testimony of Laclede witness Steven Mathews, except for Third Revised Sheet 28-e, which is attached as Schedule 1 to Mr. Mathews' surrebuttal testimony.

ISSUE B:

Do the controlling PSP Tariff and Program Description terms for the October 1, 2000 through September 30, 2001 ACA period entitle Laclede to retain approximately $4.9 million of the $33.5 million in financial proceeds received by the Company through its purchase and sale of call options during that period?

Laclede's Position:

Yes. Laclede's efforts in buying and selling call options during the 2000-01 ACA Period generated proceeds totaling $33,499,000. Under the terms of the PSP Tariff and Program Description for that period Laclede was entitled to retain $8,872,997 out of these proceeds. A calculation and a step-by-step explanation showing how this amount was determined in strict accordance with the PSP Tariff and Program Description is set forth in the rebuttal testimony of Laclede witness Michael Cline, including Schedule 1 thereof, and is summarized below.

In brief, Laclede's PSP contained two incentive components: (i) a Price Protection Incentive ("PPI"), and (ii) an Overall Cost Reduction Incentive ("OCRI"). The PPI covered options that were liquidated during the last three business days of NYMEX (New York Mercantile Exchange) option trading. The OCRI pertained to savings achieved through reductions in the cost of the program below the initial annual expenditures authorized for the program (known as the Maximum Recovery Amount, or "MRA," which was set at approximately $4,000,000). These savings could be achieved either through favorable option purchases, or by intermediate trading activities in which the option is sold prior to the last three business days of NYMEX option trading.

Due to market conditions in the Spring of 2000, Laclede served notice on June 1, 2000 declaring the PPI inoperable for the 2000-01 ACA Period, as provided in the PPI section of the Program Description, paragraph 2.B.ii. This action did not affect the OCRI, which remained in force, as confirmed by the terms of the PSP Tariff and Program Description, and by a Unanimous Stipulation and Agreement filed by the parties on September 1, 2000, and approved by the Commission on September 28.

Starting with the initial $4 million investment, Company personnel applied their best efforts to maximize profits for customers. Laclede engineered a series of option purchases and sales that resulted in $33,499,000 of total option sales proceeds, which after being netted against total option purchases of $8,922,450, resulted in total savings of $24,576,550.

These savings are divided between the PPI and OCRI under paragraphs G.3 and G.4. of the Company's tariff, respectively. As indicated above, gains associated with paragraph G.3 are defined in the Company's Program Description as "gains from call options which are liquidated "in the money" during the last three days of NYMEX options trading". Of the $24,576,550, $11,566,000 related to the sale of options during the last three days of NYMEX options trading. Since Laclede had declared the PPI inoperable, Laclede distributed this entire amount to ratepayers. That left another $13,010,550 of savings to be shared between the Company and its customers under paragraph G.4.

Under paragraph G.4 " the Company shall account for any differences between the MRA and the net cost of price stabilization ("Actual Cost") for the preceding heating season, exclusive of the gains and costs covered by Section G.3." The MRA was $4,000,000, the amount the Company was authorized to collect from customers for expenditures on call options. The net cost of price stabilization is simply the difference between the amount the Company spent on call options ($8,922,450) less the amounts it realized from the sale of those options ($33,499,000), or a negative $24,576,550 (see Schedule No. 1 of the Rebuttal Testimony of Michael T. Cline). As indicated, the gains covered by paragraph G.3 ($11,566,000) must be subtracted from the net cost of price stabilization. Subtracting $11,566,000 from $24,576,550 leaves $13,010,550 as the negative net cost of price stabilization exclusive of the PPI gains. The difference between this negative net cost and the MRA cost of $4,000,000 is a $17,010,550 cost reduction under the OCRI. Of this amount, under the OCRI sharing formula set forth in paragraphs G.4.b and G.4.c, Laclede is entitled to $8,872,997. However, Laclede volunteered, and the Commission accepted, an offer to contribute $4 million of the Company's incentive reward to the 2001-02 PSP for the benefit of Laclede customers, a contribution that enabled the Company to save its customers another $30 million in reduced gas costs in the subsequent ACA period. Thus, subtracting this $4 million from the $8,872,997 OCRI total left a remainder of $4,872,997, to which Laclede is entitled.

In summary, under the PSP Tariff and Program Description, Laclede seeks to keep for itself only about $4.9 million out of more than $24.5 million in net savings Laclede achieved through its management of option investments.

For its part, the Staff has presented three alternative rationales or methods for calculating Laclede's share of the $33.5 million in option sales proceeds. None of these methods appear in the PSP Tariff or Program Description and are in fact inconsistent with them.

Respectfully submitted,

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Certificate of Service

The undersigned certifies that a true and correct copy of the foregoing Statement of Positions was served on all counsel of record in this case on this 24th day of January, 2003 by hand-delivery, email, fax, or by placing a copy of such Statement, postage prepaid, in the United States mail.

Michael C. Pendergast lwq