C SERVICE COMMISSION
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Exhibit No. 4HC
Date 2-2-01 Case No. GO-2000-394
Reporter KF
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Laclede Gas Company
Price Stabilization Fund
Case No. GO-2000-394
Staff Data Request No. 5005-23

Q. Please explain all reasons why Laclede has not hedged its portfolio to date.

A. As stated in the Company's response to Staff Data Request No. 21, the objective of the Company's Price Stabilization Program has been to provide catastrophic price protection for its customers to the fullest extent possible at the lowest reasonable cost. As the Company began its 2000/01 Price Stabilization Program, prices had rallied to the point where the winter strip was trading some $.50 higher than the average of the historical forward prices for the winter period. The winter strip seemed unexplainably high in light of the fact that the industry was coming out of a winter that was one of the warmest on record. In the prior year, in which a very warm winter also occurred, natural gas futures prices softened in late winter and spring. Because of these factors, the Company did not believe that the then current winter 2000/01 pricing was sustainable for any lengthy period of time.

The decision not to hedge during March and April was made with advice and recommendations received from RMI, Inc., the Company's consultant and broker. During that period, RMI cautioned against purchasing price protection at then prevailing prices because of the value of time decay. If prices remain constant, the cost of an option should decrease with time. A number of factors indicated, according to RMI, that a downward correction was imminent. First, the sustained increase that started at the end of the 1999 summer in the number of rigs drilling for natural gas was expected to cause downward pressure on prices during the 2000 summer period as additional natural gas production entered the market. Second, the technical factors indicated that the market was overbought and that there was a great potential for a correction given the duration of the unprecedented run-up in prices. Third, while storage inventory and weekly injections were below the levels seen during 1999, both were close to the four-year average. Also, there was still ample time to build storage before the 2000 winter season began. Finally, while some traders were focusing on short-term weather forecasts for a hot summer and the impact that increased electric generation during the summer was going to have on natural gas prices, RMI discounted that impact because the level of new gas-fired generation was not going to be enough to alter the existing demand curve for this summer.

In light of the foregoing, the Company did not believe it was prudent to purchase price protection at $4.70 (the level of the TSP) and above, especially considering that the maximum approved strike price for the 1998-99 program was $4.00. Unfortunately, prices did not soften but continued to rise. Accordingly, in early May, the Company decided it could no longer wait to purchase some price protection. Hence, the Company began an initiative to purchase over a short period of time approximately half of its program requirements at a strike price of $4.75. However, because prices suddenly escalated, only 50 contracts could be purchased. By the second week of May, the Company could no longer even purchase options at the CPL ($5.20) established under the program for the authorized amount of $ 4 million. The Company did not believe it was prudent to purchase options at or above that level.

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