

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY
February 13, 2001**

CASE NO: GO-2000-394

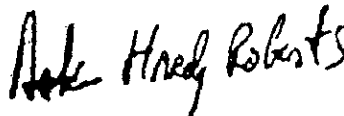
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Michael C. Pendergast
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Enclosed find certified copy of an ORDER in the above-numbered case(s).

Sincerely,



**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office
in Jefferson City on the 13th
day of February, 2001.

In the Matter of Laclede Gas Company's)
Experimental Price Stabilization Fund.) Case No. GO-2000-394

**ORDER MODIFYING THE EXPERIMENTAL
PRICE STABILIZATION PROGRAM**

On December 22, 2000, the Staff of the Missouri Public Service Commission (Staff) filed a Staff Recommendation, urging that the Commission terminate the third year of the experimental Price Stabilization Program (PSP) of Laclede Gas Company (Laclede). Staff filed an additional pleading supporting its position on January 23, 2001.

Staff notes that the Commission established this case on January 11, 2000, to monitor Laclede's experimental PSP. Laclede's PSP was authorized by the Commission in its Report and Order in Case No. GO-98-484, issued June 15, 1999. The PSP was authorized for a term of three years, with the Commission retaining the "right, but not the obligation, to review the program annually and, if necessary, revise it to correct any major deficiencies on or before February 15 of each year of the program."

Staff argues that the PSP is flawed and recommends terminating the third year of the PSP. Among other things, Staff states that the PSP permits the company to speculate at no risk for 90 days, while exposing its customers to the risk of losing an effective cap on natural gas prices. According to Staff, when the market moves against its customers, Laclede seeks Commission approval to take the steps needed to protect customers. Staff argues that this additional delay in a volatile market results in harm to Laclede's customers.

Staff further alleges that when the market price of natural gas retreats from the current record levels, Laclede will reap a windfall by operation of the market, not necessarily from action of its own. Staff states that customers lose protection in a rising market, and pay more for the delivered cost of gas through incentives in a declining market.

Laclede filed responses to Staff's position on January 5, 2001, and January 29, 2001. Laclede argues that there is no justification for terminating the third year of the PSP. Laclede alleges that for a revision to be made to the PSP, the Commission must first determine that the revision is necessary to correct a "major" deficiency. Laclede indicates that there is not any deficiency in the PSP that would warrant its elimination. Contrary to the Staff's assertion that the PSP "is no longer appropriate in current market conditions," Laclede asserts that the need for effective and workable price protection programs has never been greater.

Laclede contends that as a result of its efforts under the PSP, it has converted the \$4 million¹ in funds authorized under the PSP into a portfolio of financial instruments that have a realized value of \$11.5 million as of the last three business days of December. In addition, Laclede states that it has been able to achieve substantial reductions in the cost of obtaining price protection pursuant to the Overall Cost Reduction Incentive component of the program. Laclede indicates that to date, these cost reductions total more than \$17 million. Laclede alleges that as a result of its efforts under the PSP, the company has achieved approximately \$28.5 million in financial benefits.²

¹ Under the PSP, the Maximum Recovery Amount (MRA) for the program is \$4 million annually, plus transaction costs.

² Staff and Public Counsel disagree with these calculations.

The Office of the Public Counsel (Public Counsel) filed a pleading supporting Staff's recommendation to terminate the third year of the PSP on January 29, 2001.

On January 30, 2001, the Commission issued an Order Setting Hearing, scheduling an on-the-record presentation for February 2, 2001. The Commission indicated that it required additional information regarding the alleged deficiencies of the PSP, and a more thorough explanation of the savings that have allegedly resulted from the program. At the hearing, the parties presented oral arguments on these topics. In addition, the Commission questioned counsel and witnesses for the parties.

On February 5, 2001, Staff submitted a proposed tariff incorporating its suggested modifications. On the same date, Public Counsel submitted a proposed tariff that includes the modifications supported by Public Counsel. On February 13, 2001, Laclede filed its Response to Proposed Modifications, noting that both proposals would effectively eliminate the PSP and replace it with a new set of rules to govern Laclede's hedging activities. Laclede alleges that these new rules would be counterproductive to any effective hedging activities and, in certain respects, completely unworkable. In addition, Laclede argues that such revisions are inconsistent with the terms of the company's tariff, which provides that the PSP may be "revised" to correct "major deficiencies" in the program. Laclede contends that the proposals eliminate, rather than revise, the program, and that neither proposal has been supported as necessary to correct a "major deficiency."

The Commission has reviewed the Staff Recommendation and the official case file, and considered the arguments and evidence presented at the hearing, and concludes that there is insufficient evidence to warrant terminating the third year of the PSP. However, the Commission notes that several modifications are appropriate. First, during the February 2, 2001,

hearing, Laclede offered to shorten the 90-day window or procurement period to 60 days in order to alleviate some of the Commission's concerns. The Commission finds that shortening the window from 90 days to 60 days has the potential to benefit Laclede's ratepayers yet will not substantially hamper the workings of the PSP. Therefore, the Commission will direct Laclede to file a tariff revision implementing this change.

Second, during the hearing Laclede also offered to contribute for the third year of the PSP an additional \$4 million of its own funds to the \$4 million that is already authorized under the program. This modification will aid Laclede in obtaining future price protection for its customers. Therefore, the Commission accepts this offer and directs Laclede to file a revision to its tariff implementing this modification.

Third, the Commission encourages Laclede to work with the Staff and Public Counsel to implement the Reconciliation process found in the PSP on an expedited basis in order to provide Laclede's ratepayers with a financial benefit more quickly.

Fourth, during the hearing Laclede indicated that it plans to seek Commission approval to extend the PSP for a fourth year. The Commission is not taking a position as to whether the program should be extended. Nonetheless, in order to allow sufficient time to address this issue, the Commission will direct the parties to set a procedural schedule.

IT IS THEREFORE ORDERED:

1. That Staff's recommendation, filed December 22, 2000, to terminate the third year of Laclede Gas Company's Experimental Price Stabilization Program is denied.

2. That Laclede Gas Company is directed to file, no later than February 23, 2001, a tariff revision shortening the 90-day window to 60 days.

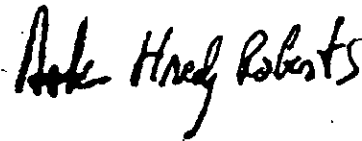
3. That Laclede Gas Company is directed to file, no later than February 23, 2001, a tariff revision implementing its offer to contribute, for the third year of the program, an additional \$4 million of its own funds to the \$4 million that is currently authorized.

4. That the Commission encourages the parties to work together to implement the Reconciliation process found in the experimental Price Stabilization Program on an expedited basis.

5. That the parties are directed to file, no later than March 7, 2001, a proposed procedural schedule to address whether the Experimental Price Stabilization Program should be continued for a fourth year.

6. That this order shall become effective on February 15, 2001.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Drainer, Murray,
Schemenauer, and Simmons, CC., concur.

Ruth, Regulatory Law Judge

ALJ/Sec'y: with 1/9/01

2-9

90-2000-394

Date Circulated

CASE NO.

AK
Lumpke, Chair

WBS
Drainer, Vice Chair

CM
Murray, Commissioner

BLJ
Schemenauer, Commissioner

KS
Simmons, Commissioner

Agenda Date

2-13

Action taken:

5-0AA

Must Vote Not Later Than

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and
I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
Missouri, this 13th day of February 2001.

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

