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January 23, 2001

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Secretary/Chief Regulatory Law Judge

DANA K. JOYCE
General Counsel

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. GO-2000-394

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of **STAFF'S REPLY TO LACLEDE'S RESPONSE** in HC version and the original of the NP version.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Thomas R. Schwarz, Jr.
Thomas R. Schwarz, Jr.
Deputy General Counsel
(573) 751-5239
(573) 751-9285 (Fax)

TRS:sw
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²

JAN 23 2001

Missouri Public
Service Commission

In the Matter of Laclede Gas Company's)
Experimental Price Stabilization Fund.)

Case No. GO-2000-394

STAFF'S REPLY TO LACLEDE'S RESPONSE

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and in reply to the Response of Laclede Gas Company ("Laclede" or "Company") filed on January 5, 2001, to Staff's Recommendation of December 22, 2000, states as follows:

1. Laclede implies that Staff asserted that there is no "need for effective and workable price protection program". (Laclede Response, p. 2, ¶3). Staff, of course, has suggested no such thing. Rather, in its December 22 filing, Staff has pointed out to the Commission that the design of Laclede's Experimental Price Stabilization Program ("PSP") has not produced the results that the Commission and Laclede's customers expected under current market conditions, and will produce detrimental effects in a future declining market, as well. The Staff has suggested at every opportunity that price protection is a critical issue for customers.

2. It is clear from a review of the Commission's Report and Order in Case No. GR-98-484 that the Commission strongly expected the PSP to produce a price cap for Laclede's customers. It is just as clear from the PSP as proposed by Laclede and approved by the

NP

Commission that no such price cap was guaranteed. See the letter from Laclede attached hereto as Attachment A. Further, the failure to produce a price cap was predictable in a market of rising natural gas prices by the inclusion of a ninety-day window to permit the Company to speculate on the movement of prices, while leaving customers without a guaranteed price cap. If prices move against customers, as they did last year, the guaranteed price cap disappears.

3. The Staff firmly believes that the purpose of programs such as the PSP is to protect customers by insuring that a limit is put on the upward price movement they face. Staff does not believe that the benefits of possible profit on movements in the gas market justify the elimination of the expected insurance against unlimited price increases.

4. Laclede suggests (Laclede Response, p. 2 - 3, ¶¶4,5) that it had realized more than \$28 million from PSP activities by the end of December 2000. Staff finds these calculations curious, at best. The cost savings appear to be greater than the total authorized cost of the program. See HC Attachment B. Staff notes that Laclede could have secured almost twice the benefit, at half the cost, by simply obtaining price insurance in a timely manner (See HC Attachment C), without waiting either to gauge its opportunity for profit under the PSP, or for Commission authority to modify its hedging program later in the year.

5. The PSP is flawed. The PSP permits the Company to speculate at no risk for ninety days, while exposing its customers to the risk of losing an effective cap on natural gas prices. When the market moves against its customers, Laclede seeks Commission approval to take the steps needed to protect customers. This additional delay in a volatile market results in harm to Laclede's customers.

6. The flaws in the PSP will continue in the future. When the market price of natural gas retreats from current record levels, Laclede will reap a windfall by operation of the

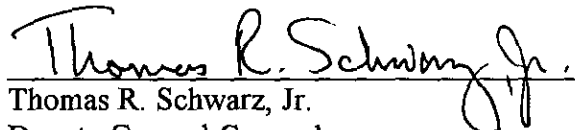
market, not necessarily action of its own. Customers lose protection in a rising market, and pay more for the delivered cost of gas through incentives in a declining market. The PSP is designed so that "heads" Laclede wins, and "tails" customers lose.

7. Staff suggests here, as it did last fall with Missouri Gas Energy, that the Commission should give the LDCs clear direction that LDCs are expected to exercise their best judgment to secure natural gas in the face of changing market conditions; clearly document the framework and basis for those decisions; and that the Commission will review those decisions in the ACA process. The Commission gave MGE clear direction to secure protection for customers in its best judgment, and it should apply the same judgment to Laclede.

8. The Commission has indicated that it will consider this issue prior to February 14. If the Commission feels that it needs to take evidence and hear argument on this matter, Staff respectfully suggests that it hold a one-day hearing, and hear arguments, on February 2, 2001, or some other date in the first week of February.

Respectfully submitted,

DANA K. JOYCE
General Counsel



Thomas R. Schwarz, Jr.
Deputy General Counsel
Missouri Bar No. 29645

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 23rd day of January, 2001.

Thomas R. Schweng Jr.

LACLEDE GAS COMPANY
720 OLIVE STREET
ST. LOUIS, MISSOURI 63101
(314) 342-0601

KENNETH J. NEISES
SENIOR VICE PRESIDENT
ENERGY & ADMINISTRATIVE SERVICES

June 1, 2000

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
301 W. High Street
Jefferson City, MO 65101

RE: Case No. GO-2000-394; Notice Regarding Price Protection Incentive

Dear Mr. Roberts:

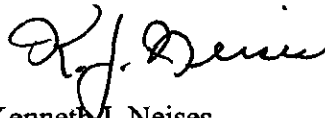
The above-referenced case was established by the Commission to monitor Laclede Gas Company's ("Laclede") revised Price Stabilization Program ("Revised PSP"), as approved by the Commission in its Report and Order dated June 15, 1999, in Case No. GO-98-484. Pursuant to the terms of the Revised PSP, the purpose of this letter is to notify the Commission that Laclede is exercising its right to declare the Price Protection Incentive component of the Program inoperable for the second year of the Program.

As contemplated by the Revised PSP, such action has been necessitated by radical changes in the market conditions governing natural gas prices in general and natural gas financial instruments in particular. Even before the second year of the Revised PSP commenced in March 2000, the cost of financial instruments had already increased to a point where the *targeted* price protection level established for this year was some 70 cents greater than the highest *catastrophic* price levels (i.e. \$4.00 per MMBtu) established in prior years. Unfortunately, rather than decline, as most industry experts and observers were expecting, such costs have only continued to escalate to unprecedented levels, with the result that the cost to obtain even catastrophic price protection has more than tripled over the amount authorized for that purpose under the Revised PSP. As shown by the attached articles from the Wall Street Journal and Gas Daily, this radical change in market conditions has been attributed to a number of factors, including the increased use of natural gas in electric generation, less than anticipated supplies of natural gas from Canada, and abnormally low storage levels.

Laclede intends to do whatever it can to procure reasonable price protection for its customers outside the ambit of the Price Protection Incentive in the months that remain before the onset of the winter heating season. However, as a result of the Company's decision to declare the Price Protection Incentive component of the Program inoperable this year, the Company will retain no gains under that component of the Program or incur

any losses resulting from the purchase of price protection above the catastrophic price level established by the program (i.e., \$5.20 per MMBtu).

Sincerely,

A handwritten signature in cursive script, appearing to read "K. J. Neises".

Kenneth J. Neises

cc: Commissioners
Office of the Public Counsel
Thomas R. Schwarz, Jr.
David M. Sommerer

ECONOMY

Deal Comes Amid Record Prices for Gas

Devon, Santa Fe Snyder
Look for Bigger Role
In Production in U.S.

By ALEXEI BARRIONUEVO

Staff Reporter of THE WALL STREET JOURNAL

Almost as if on cue, Devon Energy Corp. last week agreed to buy Santa Fe Snyder Corp. for \$2.35 billion to take advantage of an unusually strong market for natural gas—and then natural-gas prices rose to all-time highs.

Devon, based in Oklahoma City, and Santa Fe Snyder, Houston, said that combined, they hope to be a bigger player in U.S. production, which is needed now more than ever. Both companies have large holdings in the Rocky Mountains, one of North America's most promising natural-gas regions.

Further, the companies see the natural-gas problem as long-term, not a single day's spike. "Natural-gas supply is reaching a crisis level," said Larry Nichols, Devon's president and chief executive officer.

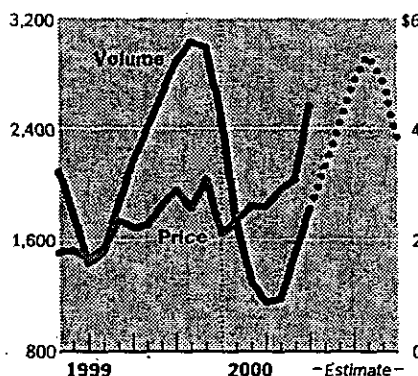
Driving the higher prices is an increased demand for natural gas, coupled with tight supply.

For the better part of a decade, natural-gas prices have lingered around \$2 per million British thermal units. Last week, fueled by inventory levels that are 25% lower than last year, prices climbed to more than \$4 per million BTUs. On Friday, the June contract settled at \$4.41, eclipsing the previous high of \$4 in January 1997, according to Stephanie Nichols, a trader at El Paso Energy Corp.

Greater demand from users such as power plants that need more and more natural gas to keep running, disappointing results from some wells and less-than-expected imports from Canada have all contributed to the current supply crunch. Worse, the price had been so low for so long that many companies have been reluc-

Gas Meter

Natural gas in storage in billions of cubic feet (left axis) and the future's price per millions of BTUs (right axis)



Sources: Energy Information Administration's May 2000 Short-Term Energy Outlook Database, New York Mercantile Exchange

tant to spend to drill for new reserves or to recover more from existing wells.

Drilling has picked up in recent weeks, with both combined oil and natural-gas rig counts up 64% from last year to 849. But natural-gas demand is expected to grow 3% this year, and many analysts think recent production could be too little too late to stave off a serious supply problem this winter.

"I don't see how we are going to make it," said Ronald J. Barone, an analyst with PaineWebber. "You have to have rig counts over 1,000 for a sustained period just to replace production."

Complicating the situation is the increasing use of natural gas to fuel electric power plants, particularly during times of peak demand. The U.S. has a shortage of power capacity generally and that is forcing power plants to use more natural gas when they normally would build storage for the winter months. With crude oil prices running at \$30 a barrel, power producers have little incentive to switch to oil to fuel their plants.

"It isn't that there isn't gas available to

handle summer demand," says Dave Costello, an economist with the Energy Information Administration. "But we are trading off availability now for availability in the winter when we really need it."

If producers can't boost gas supplies, many analysts are betting prices could shoot up over the \$5 per million BTU level this winter.

Natural-gas supply fell when many independents cut back drilling by more than 40% during the oil downturn that began in 1998 and saw crude prices fall to about \$11 a barrel in 1999. Drilling activity has yet to return to 1997 levels. "The companies are still shell-shocked over what happened in 1998," said Frederick Leuffer, an analyst with Bear Stearns.

Deepwater areas in the Gulf of Mexico that were thought to be promising for natural gas turned out to be more oil-rich than expected. Shallower areas on the Gulf's shelf contain more gas but require constant investment to stem decline. Low prices also slowed production from Canada, a region the U.S. market relies on for supply. This year, imports are running 40% below expected levels for the year, the EIA said.

In this environment, the stocks of North American energy production companies such as Devon and Santa Fe have been flying. Devon's shares have risen 80% this year, hitting an all-time high of \$59.50 last week. However, Devon's shares fell \$3.0625 to \$55.625 Friday at 4 p.m. in American Stock Exchange composite trading. Analysts blamed the stock's fall on concerns that Devon paid too much for Santa Fe Snyder, Devon's biggest deal to date. Shares of Santa Fe Snyder were up 75 cents to \$11.75 at 4 p.m. Friday in New York Stock Exchange composite trading.

The combined company will be the fourth-largest independent exploration and production company in the U.S. By buying Santa Fe Snyder, Devon will more than double its natural-gas reserves in the Rocky Mountain region, where Devon has specialized in low-cost extraction of natural gas from shallow-water coal deposits. Devon said the region is estimated to hold two trillion cubic feet of gas.



FINANCIAL TIMES
Energy

Friday, May 26, 2000

Attn: Kenneth J Neises

Fax Edition - 11 pages

Gas Daily®

Daily Price Survey

Listed in the left column are the midpoints of the daily ranges for the most common prices, paid in \$/mmBtu of a typical volume of 5 thousand mmBtu. The middle column shows absolute low-high prices for transactions reported on the date at the top of the column; the third column shows that day's ranges for the most common prices. The prices are generally for gas flowing today; weekends are usually priced using data collected Friday. Ranges are for deals done before nomination deadlines. Boldface indicates the price range is based on data reported the previous day. Plain type indicates insufficient data to reconfirm or change the previous range. The common range is built around the volume weighted average and the midpoint is calculated for the common range. Data in this table is Copyright 2000 by FT Energy.

NATIONAL AVERAGE PRICE: \$4.110***

Trans. date	5/25	5/25	5/25
Flow date(s)	5/26	5/26	5/26
	Midpoint	Absolute	Common
Permian Basin Area			
El Paso	4.040	3.98-4.11	4.01-07
Northern (Mids 1-6)	4.000	3.98-4.06	3.98-4.02
Tex Intrast. Waha area	4.070	4.03-10	4.05-09
Transwestern	4.015	3.99-4.05	4.00-03
East Texas-North Louisiana Area			
Carthage Hub tailgate	4.100	4.08-12	4.09-11
Koch (Zones 1&2)	3.865	3.85-88	3.86-87
Lone Star	4.025	3.99-4.04	4.01-04
MRT mainline	4.175	4.12-18	4.17-18
MRT west leg	4.120	4.11-13	4.11-13
NGPL TexOk (West)	4.050	4.04-06	4.04-06
NGPL TexOk (East)	4.055	4.01-11	4.03-08
Tennessee, 100 Leg	4.030	4.02-04	4.02-04
Texas Eastern (ETX)	4.070	4.04-09	4.06-08
Texas Gas (entire Z 1)	4.140	4.10-18	4.12-16
East-Houston-Katy			
Houston Ship Channel	4.155	4.13-18	4.14-17
Katy plant tailgate	4.120	4.09-17	4.10-14
Trunkline North	4.120	4.10-13	4.11-13
North-Texas Panhandle			
NGPL (Permian)	3.925	3.90-96	3.91-94
Northern (Mid 10)	3.800	3.78-82	3.79-81
Transwestern	4.015	3.99-4.05	4.00-03
South-Corpus Christi			
Agua Dulce hub	4.045	4.03-09	4.03-06
Florida Gas	4.125	4.10-17	4.11-14
HPL	4.050	4.03-06	4.04-06
Koch (Zone 1)	3.970	3.96-99	3.96-98
NGPL (STX)	4.040	4.00-08	4.02-06
Tennessee	4.030	3.98-4.06	4.01-05
Texas Eastern (STX)	4.000	3.97-4.04	3.98-4.02
Transco, St. 30	4.060	4.01-14	4.03-09
Trunkline South	4.080	4.07-09	4.07-09
PG&E-GTT	3.980	3.96-99	3.97-99
Louisiana-Onshore South			
ANR	4.095	4.02-16	4.06-13
Columbia	4.145	4.08-18	4.12-17
Columbia, Mainline	4.195	4.17-22	4.18-21
FGT Z1	4.125	4.10-17	4.11-14
FGT Z2	4.165	4.14-20	4.15-18
FGT Z3	4.145	4.11-18	4.13-16
Henry Hub	4.175	4.11-21	4.15-20
Koch (Zones 2&4)	4.080	4.06-09	4.07-09
NGPL (L.A.)	4.105	4.02-16	4.07-14
Sonat	4.155	4.12-18	4.14-17
Tennessee, 500 Leg	4.040	4.00-08	4.02-06
Tennessee, 800 Leg	4.030	3.99-4.08	4.01-05
Texas E. (WLA)	4.040	4.00-08	4.02-06
Texas E. (ELA)	4.055	4.00-10	4.03-08
Texas Gas SL	4.135	4.09-18	4.11-16
Transco, St. 45	4.115	4.06-16	4.09-14
Transco, St. 65	4.140	4.08-20	4.11-17
Trunkline WLA	4.140	4.08-19	4.11-17
Trunkline ELA	4.130	4.09-16	4.11-15
Oklahoma			
ANR	3.980	3.93-4.05	3.95-4.01
NGPL (Midcont.)	3.970	3.88-4.03	3.93-4.01
Reliant (North/South)	4.030	3.97-4.10	4.00-06
Reliant (West)	3.970	3.90-4.05	3.93-4.01
Northern (Mid 11)	3.830	3.80-85	3.82-84
OGT	3.975	3.91-4.01	3.95-4.00
PEPL	3.990	3.92-4.03	3.96-4.02
Williams	3.975	3.92-4.02	3.95-4.00
New Mexico-San Juan Basin			
El Paso, Bondad	3.855	3.80-91	3.83-88
El Paso, non-Bondad	3.865	3.82-92	3.84-89

continued on next page

Henry Hub spike could mark new price trend

The move of the average Henry Hub spot price above \$3.50/mmBtu on May 18 and near \$4/mmBtu on May 22 was unprecedented for this time of year. This most recent period marks only the third time when spot prices at Henry Hub have approached or exceeded \$4. In fact, spot prices there have rarely exceeded \$3.

The average daily spot price at Henry Hub exceeded \$3 for the first time in late December 1995. That period marked the most significant spot market price event ever at the Henry Hub. It began on Dec. 21, 1995 when the average posted spot price increased 55¢/mmBtu to \$3.70/mmBtu after rising above \$3 the previous day. By the end of the following week, though, the price had declined almost \$1 from that high level.

Then prices quickly rebounded above \$3.50 when the industry realized that working gas in storage levels may have declined to almost 2 trillion cf, a level not experienced that early in the

Special look at
Louisiana,
see page 5.

(continued on page 8)

winter heating season since December 1976 when gas deliveries to customers were curtailed.

It's worth recalling that the winter of 1976 provided much of the needed motivation for the passage of the National Gas Policy Act (NGPA) decontrol of natural gas prices, and the high prices created by the NGPA were the fundamental incentive for the development of the spot gas market.

The average daily price at Henry Hub reached a peak of \$14 on Feb. 2, 1996 in response to a sudden drop in temperatures. Prices generally stayed above \$3.50 until the end of February 1996. At that time, working gas levels stood at 1 trillion cf, once again an almost unprecedented level for that time of year. By the end of the heating season working gas levels had plummeted to 758 billion cf.

The next heating season — 1996-97 — also experienced low working gas in storage

levels. A cold spell early in the heating season contributed to high prices but not nearly as high as the previous year.

Storage levels today are currently higher than then were at the same time in 1996 and in 1997. Prices are also significantly higher than they were, and this is the problem. There is hesitancy on the part of speculators to put gas in storage and take the bet that prices will rise enough at some point in the future to cover the cost of the commodity and storage.

The futures market gives no relief. On May 19, settlement prices revealed that prices were expected to remain high for the rest of the year. The 6-month NYMEX forward curve was significantly above forward curves for past years at this time. In fact, the May 19 forward curve was more than \$1.50/mmBtu above these forward curves from the past. This change in price was equivalent to the level of

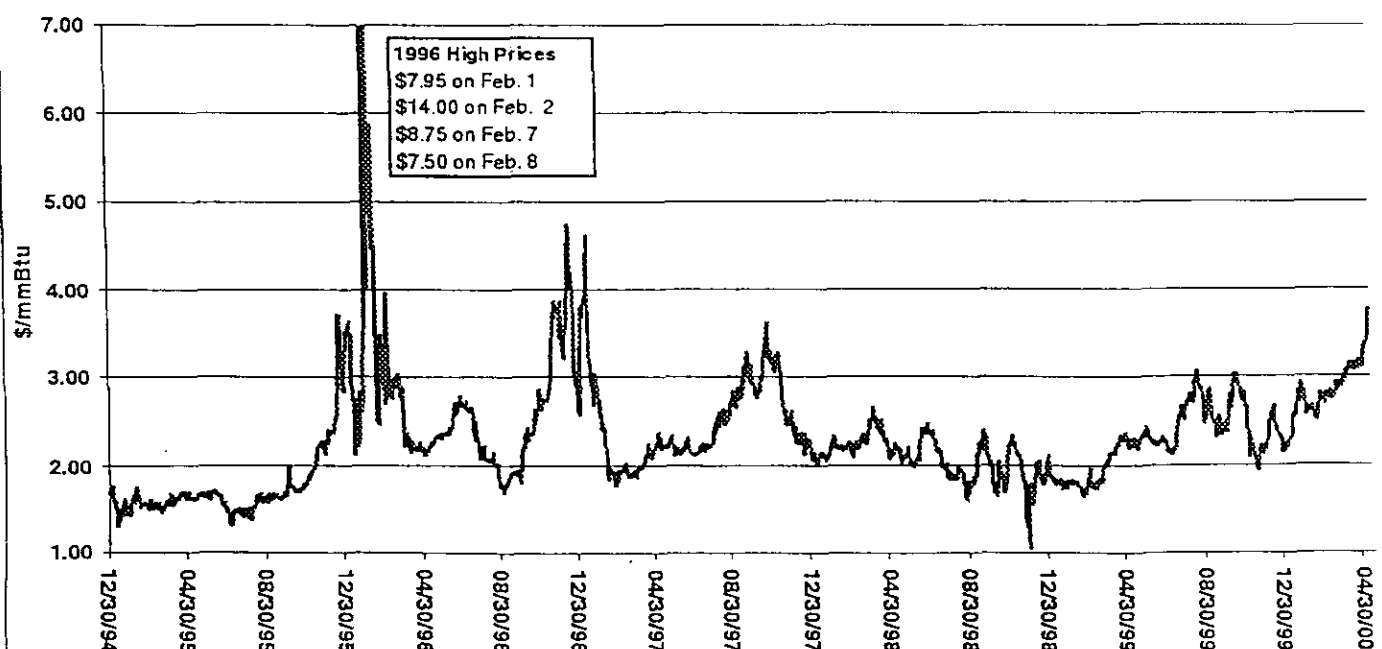
spot prices in 1994 and the first half of 1995 (see spot price figure below).

The overall shape of the current forward curve is not that much different from previous years. Yet the rise in price is only 18¢ from June to January, much smaller than in the previous two years, providing little incentive to store gas since the cost of storage for the same period clearly exceeds this difference.

Looking to last year

Current high prices are explained, in part, by the high recent prices that preceded them. Settlement prices at the close of trading for the April and May NYMEX contract were record-setting for those delivery months. Higher prices in April and May were not entirely surprising and were viewed as part of a longer-term trend but the price bar they attained was surprising.

Henry Hub spot prices, 1995-2000



Source: Gas Daily

ATTACHMENT B

IS

HIGHLY

CONFIDENTIAL

IN ITS

ENTIRETY

ATTACHMENT C

IS

HIGHLY

CONFIDENTIAL

IN ITS

ENTIRETY

Service List for
Case No. GO-2000-394
Revised: January 23, 2001 (SW)

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Jefferson City, MO 65102

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