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August 2, 2002

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

FILED
AUG 0 2 2002
Missouri Public
Service Commission

**RE: Laclede Gas Company,
Case No. GR-2002-356**

Dear Mr. Roberts:

Enclosed for filing in the above referenced case, please find the original and 8 copies of **Rebuttal Testimony of James A. Busch (HC and NP version) and Ryan Kind.** The Rebuttal Testimony of Kimberly K. Bolin, Mark Burdette, Hong Hu and Barbara A. Meisenheimer was filed electronically using EFIS. Please "file stamp" the extra-enclosed copy and return it to this office. I have on this date mailed, faxed, or hand-delivered the appropriate number of copies to all counsel of record.

Thank you for your attention to this matter.

Sincerely,

Douglas E. Micheel
Senior Public Counsel

DEM:kh

cc: Counsel of record

Enclosure

FILED

AUG 0 2 2002

Missouri Public Service Commission

Exhibit No.:

Issue(s): Cost of Service/ Gas Inventory Carrying Costs/ Incentive Mechanism

Witness/Type of Exhibit: Busch/Rebuttal

Sponsoring Party: Public Counsel

Case No.: GR-2002-356

REBUTTAL TESTIMONY

OF

JAMES A. BUSCH

Submitted on Behalf of the Office of the Public Counsel

LACLEDE GAS COMPANY

Case No. GR-2002-356

NP

August 2, 2002

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Laclede Gas Company's tariff to revise natural gas rate schedules.	))	Case No. GR-2002-356

AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI	)	
	)	ss
COUNTY OF COLE	)	

James A. Busch, of lawful age and being first duly sworn, deposes and states:

1. My name is James A. Busch. I am the Public Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 12 and Schedules JAB-R1 through JAB-R4.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

James A. Busch

James A. Busch

Subscribed and sworn to me this 2nd day of August, 2002.

KATHLEEN HARRISON
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan. 31, 2006

Kathleen Harrison

Kathleen Harrison, Notary Public

My commission expires January 31, 2006.

TABLE OF CONTENTS

DIRECT TESTIMONY

OF

JAMES A. BUSCH

CASE NO. GR-2002-356

LACLEDE GAS COMPANY

Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 7800, Jefferson City, MO 65102.

Q. Are you the same James A. Busch who filed direct testimony previously in Case No. GR-2002-356?

A. Yes I am.

Q. What is the purpose of your rebuttal testimony in Case No. GR-2002-356?

A. The purpose of my rebuttal testimony is to present an update of Public Counsel's class cost of service study (COS), to respond to the direct testimony of John Mallinckrodt, to respond to Laclede's plan to shift gas inventory carrying costs (GICC) from base rates to the PGA/ACA mechanism, and to explain OPC's properly designed incentive mechanism in detail. Public Counsel witness Barbara Meisenheimer will discuss the policy issues relating to the properly designed incentive mechanism.

CLASS COST OF SERVICE STUDY

Q. Has your class COS study been updated since your direct testimony?

A. Yes it has. Attached, as Schedule JAB-R1 is my updated study.

Q. What portions of the study were updated?

A. I received updated billing revenues, annual bills, annual volumes, annual sales, and winter sales from Staff. These changes affected some of the allocators that I use in determining each class' cost of service.

Q. Did the updated information change the results of your study?

A. There were slight movements in each customer class, with the exception of the basic transportation class. The basic transportation class moved from being below its cost of service to being above its cost of service. Public Counsel's rate design witness Hong Hu will discuss if this change affects her rate design recommendation.

Q. Do you have any criticisms of MIEC witness John Mallinckrodt's class COS study?

A. Yes. The main criticism that I have regarding Mr. Mallinckrodt's study is that he combines both the residential general service and commercial and industrial general service classes together. Combined these two classes consist of approximately 94% of the Laclede's non-gas revenues. These two classes are separate and distinct both in Laclede's tariffs and in design. The residential class serves residential consumers. The commercial and industrial class serves a broad range of customers from local barbershops to restaurants to major shopping malls. To lump the costs associated with providing service to these two classes together could lead to problems with any COS study. In fact, since the C & I class is so diverse, consideration should be given to splitting this class apart. However, before that can be accomplished, the Company would have to do a cost of service study with complete and accurate costing data. Public Counsel witness Hong Hu also addresses this topic in her rebuttal testimony.

Q. What problems may arise from combining the two largest classes together in a class cost of service study?

A. The main problem that arises is reliability. How reliable is Mr. Mallinckrodt's study when the vast majority of costs and revenues are combined into one class and the remaining 6% or so of costs and revenues are divided between eight classes? Since these classes are so small, small changes in allocations may result in severe cost of service changes when compared on a percentage basis. Furthermore, on what basis do changes to the rates of the residential and C & I occur? Do both classes move equally? Since these classes serve different types of customers, they have different cost structures in order for Laclede to provide them service. Since these differences are not taken into consideration in Mr. Mallinckrodt's class COS study, his study should not be relied upon in this proceeding.

GAS INVENTORY CARRYING COSTS

Q. Has Laclede proposed to alter the manner in which it wishes to collect gas inventory carrying costs?

A. Yes it has.

Q. What is the current manner in which gas inventory carrying costs (GICC) are recovered?

A. Currently, GICC are recovered through non-gas rates set in a general rate case. Carrying costs are essentially recovered based on the value of natural gas stored by Laclede in the summer injection season for use in the winter heating season and maintained by Laclede over the course of a year, multiplied by the rate of return.

Q. What is Laclede's new proposal?

A. Laclede is proposing that GICC should be removed from rate base and included in the PGA clause.

Q. Why is Laclede proposing to switch GICC from rate base to the PGA mechanism?

A. Laclede claims, in the direct testimony of Mr. Michael Cline, that the inclusion of GICC in the Company's PGA would guarantee that the costs associated with gas inventory would be recovered from consumers, no more – no less. (Cline direct, pages 18 – 19, lines 21 – 22, 1 – 2)

Q. What benefit does Laclede receive from the proposed new treatment of GICC?

A. Laclede benefits by the guarantee of recovery of costs relating to gas inventory. When taking this change into consideration with Laclede's proposed Weather Mitigation Clause, it seems obvious that Laclede is attempting to eliminate all risk from non-gas rates. Also, Laclede benefits in its rate of return calculation. The rate of return for a utility is determined by multiplying the weight of equity, long-term debt, and short-term debt by their respective individual costs. In this weighting, short-term debt has the lowest cost. Laclede generally utilizes short-term debt to procure gas inventory. By removing gas inventory from rate base, this takes a substantial amount out of short-term debt, which will have the effect of increasing Laclede's overall rate of return. An increase in rate of return leads to a higher revenue requirement for the Company.

Q. When do Laclede's customers benefit from the proposed change?

A. Consumers would benefit in those years when the actual carrying costs are below the amount of carrying costs that would have been built into rates. Conversely, when actual carrying costs are greater than the amount that would have been built into rates, the consumers suffer a detriment. Further, Laclede is proposing to utilize the prime interest minus 2 percentage points to determine the GICC if it gets moved to the PGA. Currently, the carrying cost is equal to the rate of return. Therefore, as long as the prime interest rate minus 2 percentage points (i.e. 7.5% - 2 = 5.5%) is below Laclede's rate of return, the consumer will pay less in carrying costs, all else equal.

Q. Does Public Counsel oppose the proposed change by Laclede regarding GICC?

A. Yes it does.

Q. Please explain.

A. Carrying costs for gas inventory are as much a part of doing business as are the pipes that Laclede uses to bring natural gas to its customers. As such, Laclede is given the opportunity to earn a rate of return on the value of the storage that it maintains. Moving these costs to the PGA clause does nothing but lower Laclede's risk profile by guaranteeing recovery of carrying costs through the PGA mechanism while increasing its rate of return. Further, adding this component to the PGA clause will complicate the PGA/ACA process even further by adding another component that will need to be audited on an annual basis.

Also, if GICC are added to the PGA mechanism, what other components may end up in the PGA? Laclede has already filed in the past for uncollectibles to be added to the PGA. Could Laclede attempt to put the salaries of its employees in the gas supply function in the PGA? Now that the Laclede Group has formed Laclede Energy Services, a new corporation that will provide gas supply services to the Company, will Laclede attempt to add those costs to the PGA? Public Counsel does not believe that these types of costs should be moved to the PGA clause and that the appropriate manner for their recovery is in a rate case proceeding. ACA audits are complicated enough right now to insure that the Company has only passed along prudently incurred charges to its customers. Adding layers of additional information to "wade through" would unnecessarily increase that complexity.

OPC's ALTERNATIVE PROPOSAL

Q. Does OPC have an alternative proposal to Laclede's weather mitigation clause if the Commission determines that there needs to be some recognition of weather variations between the Company and its ratepayers?

A. Yes. As discussed in the rebuttal testimonies of Public Counsel witnesses Ryan Kind and Hong Hu, OPC has an alternative approach to Laclede's weather mitigation clause. Public Counsel believes that if steps are going to be taken to reduce the Company's risk, then ratepayer risk should be lowered as well. Therefore, Public Counsel, in conjunction with its alternative rate design proposal, offers a new incentive plan to protect consumers from upward price volatility. I will discuss the mechanics of the proposal in my rebuttal testimony, and Public Counsel witness Barbara Meisenheimer will discuss the policy implications and rationale for our properly designed incentive mechanism.

Q. Please describe Public Counsel's gas commodity incentive mechanism (GCIM).

A. Public Counsel's GCIM places natural gas costs into one of three tiers. The first tier includes prices below \$3.00 per MMBtu. The second tier consists of prices between \$3.00 and \$5.00 per MMBtu. The third tier includes all prices above \$5.00 per MMBtu.

Below is the matrix that shows the tier levels.

CHART 1

Tier Levels			
Tier 1		<	\$ 3.000
Tier 2	\$ 3.001	<	\$ 5.000
Tier 3	\$ 5.001	<	

Q. Please continue.

A. Laclede may use any procurement strategy it deems appropriate. The actual price will be the price that Laclede ultimately charges its customers, including reductions for use of any hedging instruments. The benchmark price will be established based on a weighted-market basket of indices that Laclede currently utilizes at this point in time. The benchmark will be the first of month (FOM) prices for each month of the year based on the weighted-market basket of indices. If the annual actual price paid by consumers is below the benchmark, Laclede may be eligible for additional compensation.

Next, the actual price paid by consumers will then be compared to the matrix to determine if Laclede may be entitled to additional compensation. If the benchmark price is in Tier 1, then Laclede will earn no additional compensation. If the actual price paid by consumers is in Tier 3, Laclede will not earn any additional compensation under the GCIM. When the actual price is in Tiers 1 or 2 and the benchmark is above the actual price of gas and in Tiers 2 or 3, then Laclede will have the opportunity to receive incentive compensation.

Q. How were the three tiers developed?

A. The tiers were developed by a careful examination of natural gas prices, Company volumes, and customer's reaction to natural gas prices. Attached, as Highly Confidential Schedule JAB-R2 is a schedule of system supply purchase for Laclede from October 1996 – September 1997. Laclede has provided this information. Monthly NYMEX settlement prices for this time frame were also analyzed as a substitute for Laclede's actual purchasing habits. These prices are also attached in Schedule JAB-R2.

Q. How was this information combined to determine the appropriate tier levels?

A. First, I multiplied the monthly purchased volumes times the monthly settlement price to determine a rough estimate of yearly gas costs. Then I divided this annual total by total volumes to determine a price per MMBtu level of natural gas for Laclede's customers. I did this for all five years of the data that I currently have. These annual price levels were then compared to the NYMEX price levels during those years. This information is shown in Highly Confidential Schedule JAB-R3.

Q. How did you analyze the NYMEX settlement prices to determine the appropriate tier levels?

A. I looked at NYMEX settlement prices back to June 1990. During this analysis I determined the frequency of NYMEX settlements below $2.00, above $7.00 and every dollar increment in between. I looked at these frequencies for all months between June 1990 and July 2002, between January 1996 and July 2002, and between January 1999 – July 2002. Below is the chart that shows the results of this frequency analysis.

CHART 2

Years	< $2.00	$2-$3	$3-$4	$4-$5	$5-$6	$6-$7	>$7.00
All (90-02)	60	59	16	6	2	2	1
96-02	12	40	16	6	2	2	1
99-02	5	16	11	6	2	2	1
All	41.10%	40.41%	10.96%	4.11%	1.37%	1.37%	0.68%
96-02	15.19%	50.63%	20.25%	7.59%	2.53%	2.53%	1.27%
99-02	11.63%	37.21%	25.58%	13.95%	4.65%	4.65%	2.33%

As can be seen by the above Chart, the majority of prices fall below $3.00 per MMBtu when comparing all months and since January 1996. However, since January 1999, the majority of prices have been above $3.00. It also shows that price of natural gas does not a frequently fall above $5.00 per MMBtu. The data also shows that there is general upward trend in prices. When looking at all the years, roughly 81% of the monthly settles were below $3.00. However, over the past three-years, only 48% of all monthly settles were below $3.00. Further, all monthly settlement levels above $4.00 have been since January 1999.

Q. So how did this information lead to your establishment of the appropriate tier levels?

A. When reviewing the above data, plus Laclede's estimated annual per MMBtu price of natural gas, $3.00 and $5.00 seemed to be appropriate cut off points. Further, Public Counsel believes that when the price of natural gas is below $3.00, consumers are indifferent. In the winters when prices were at or below $3.00, very little if any complaints were heard about the price of natural gas. Therefore, even if Laclede was able to lock in prices below the benchmark, consumers should not have to pay additional compensation to the Company. Also, Public Counsel believes that at when the price reaches above $5.00, consumers are already paying too much for natural gas and additional compensation to the Company will only add to the suffering of Laclede's ratepayers.

Q. How is Laclede compensated under Public Counsel's GCIM?

A. If the actual price of natural gas passed on to consumers is in either Tier 1 or Tier 2, the benchmark price is in either Tier 2 or Tier 3, and the actual price is below the benchmark, Laclede is eligible for incentive compensation. Incentive compensation is determined by figuring the difference between the actual cost of gas to the consumers versus what the benchmark cost of gas would have been. Once this difference is calculated, Laclede may receive 10% of the cost reductions up to a cap of $5,000,000. Once Laclede's compensation level reaches the cap, the percentage that Laclede may keep falls to 1% of any remaining cost reductions.

Q. Do you have an example?

A. Yes. Attached to my rebuttal testimony, as Highly Confidential Schedule JAB-R4 is Public Counsel's proposal plus two examples. In the examples, one shows different incentive compensation amounts to be earned by Laclede if the benchmark is in Tier 3, and the other example shows incentive compensation amounts if the benchmark is in Tier 2. The different incentive compensation amounts are based on different assumptions of the actual cost of gas that Laclede's customers paid for natural gas.

Q. In your examples you show actual gas costs ranging from \$2.00 per MMBtu to \$4.75. What are the chances that Laclede would be able to lock in prices around \$2.00 when the yearly average was over \$5.00 per MMBtu?

A. The benchmark price used in the first example is based upon Laclede's actual monthly volumes and monthly NYMEX settlement prices during the year October 2000 – September 2001. Due to the increase of natural gas futures during the summer of 2000 Laclede could have had the opportunity to lock in prices between \$3.50 and \$4.50 per MMBtu for that 12-month period. So assuming Laclede had locked in prices at \$4.00 during that time frame, Laclede's incentive compensation would have been \$5,945,220.

Q. What about transportation costs?

A. Transportation costs will continue to be passed through the PGA on a dollar-for-dollar basis. Further, if Laclede alters its transportation mix to achieve lower priced natural gas at the expense of higher transportation costs, no incentive compensation will be given to Laclede, unless the changes was necessitated by significant changes in Laclede's system operating conditions.

Q. Does this plan eliminate prudence reviews?

A. No. If the actual price of gas is above the benchmark or in Tier 3, Laclede shall be subject to prudence review and any proper party may propose a disallowance.

Q. What is the term limit of this plan?

A. This plan will remain in effect for three years. Further, there shall also be a market out clause that will allow any party the right to propose termination or modification of the program in case of significant impacts on the price of gas such as acts of God, change in Federal or State law or regulation, or change in gas supply market or system operating conditions.

Q. Does this conclude your rebuttal testimony?

A. At this time.

LACLEDE GAS COMPANY

Cost of Service Study

GR-2002-356

TOTAL COST OF SERVICE SUMMARY (000)		TOTAL	GS RESIDENTIAL	GS COM. & INDUSTRIAL	LARGE VOLUME	INTER-RUPTIBLE	FIRM	BASIC	LP	UMGL
1 O & M Expenses		128,674	97,904	23,999	1,554	213	1,870	3,107	23	5
2 Depreciation Expenses		25,143	18,710	4,720	354	49	485	819	4	1
3 Taxes		34,790	25,551	6,788	505	72	695	1,173	5	1
4										
5 TOTAL - Expenses and Taxes		188,607	142,165	35,506	2,414	334	3,051	5,099	32	7
6										
7 Current Revenue (non-gas)										
8 Rate Revenue (non-gas)		226,044	174,259	38,207	2,837	379	4,025	6,273	39	25
9 Late Payment Charges	20	5,001	3,713	973	69	10	88	147	1	0
10 Other Revenue	20	8,921	6,624	1,735	123	17	158	263	1	0
11										
12 TOTAL - Current Revenues		239,966	184,596	40,915	3,029	406	4,271	6,683	41	25
13 Current Revenue Percentage		100.00%	76.93%	17.05%	1.26%	0.17%	1.78%	2.79%	0.02%	0.01%
14										
15 OPERATING INCOME		51,359	42,431	5,409	615	72	1,220	1,585	9	19
16		51,359								
17 TOTAL RATE BASE		622,897	453,379	124,815	9,531	1,375	12,643	21,051	81	22
18										
19 Implicit Rate of Return (ROR)		8.25%	9.36%	4.33%	6.45%	5.25%	9.65%	7.53%	11.32%	85.27%
20										
21 OPC Recommended Rate of Return		7.97%	7.97%	7.97%	7.97%	7.97%	7.97%	7.97%	7.97%	7.97%
22										
23 Recommended Operating Income With										
24 Equalized (OPC) Rates of Return		49,645	36,134	9,948	760	110	1,008	1,678	6	2
25		49,645								
26 Class COS at OPC's Recommended Rate of Return		238,252	178,299	45,454	3,173	443	4,058	6,777	38	9
27 Revenue Percentage		100.00%	74.84%	19.08%	1.33%	0.19%	1.70%	2.84%	0.02%	0.00%
28										
29 Allocation of Difference Between Current										
30 Revenue and Recommended Revenue	20	(1,714)	(1,273)	(333)	(24)	(3)	(30)	(51)	(0)	(0)
31		(1,714)								
32 Margin Revenue Required to Equalize										
33 Class ROR - Revenue Neutral		239,966	179,572	45,787	3,197	447	4,089	6,827	39	9
34 Revenue Percentage		100.00%	74.83%	19.08%	1.33%	0.19%	1.70%	2.85%	0.02%	0.00%
35		239,966								
36 Rev. Neutral Shift to Equalize Class ROR		(0)	(5,024)	4,872	168	41	(182)	144	(2)	(17)
37 Rev. Neutral Shift Percentage to Equalize Class ROR			-2.88%	12.75%	5.93%	10.75%	-4.53%	2.29%	-6.29%	-67.59%

SCHEDULE JAB-R2-1

HAS BEEN

DEEMED HIGHLY CONFIDENTIAL.

LACLEDE GAS COMPANY

Case No. GR-2002-356

Properly Designed Incentive Mechanism

Monthly NYMEX Settlements

Month	Price	Month	Price	Month	Price	Month	Price
Jun-90	1.557	Mar-94	2.418	Dec-97	2.577	Sep-01	2.295
Jul-90	1.510	Apr-94	1.981	Jan-98	2.309	Oct-01	1.830
Aug-90	1.426	May-94	2.076	Feb-98	2.001	Nov-01	3.202
Sep-90	1.428	Jun-94	1.851	Mar-98	2.286	Dec-01	2.316
Oct-90	1.555	Jul-94	1.966	Apr-98	2.300	Jan-02	2.555
Nov-90	1.970	Aug-94	1.789	May-98	2.262	Feb-02	2.006
Dec-90	2.380	Sep-94	1.484	Jun-98	2.017	Mar-02	2.307
Jan-91	2.046	Oct-94	1.406	Jul-98	2.358	Apr-02	3.457
Feb-91	1.538	Nov-94	1.683	Aug-98	1.942	May-02	3.319
Mar-91	1.395	Dec-94	1.661	Sep-98	1.672	Jun-02	3.420
Apr-91	1.391	Jan-95	1.639	Oct-98	2.031	Jul-02	3.278
May-91	1.350	Feb-95	1.416	Nov-98	1.972		
Jun-91	1.336	Mar-95	1.428	Dec-98	2.149		
Jul-91	1.167	Apr-95	1.566	Jan-99	1.765		
Aug-91	1.195	May-95	1.672	Feb-99	1.810		
Sep-91	1.420	Jun-95	1.757	Mar-99	1.666		
Oct-91	1.800	Jul-95	1.532	Apr-99	1.852		
Nov-91	1.772	Aug-95	1.385	May-99	2.348		
Dec-91	1.987	Sep-95	1.575	Jun-99	2.226		
Jan-92	1.695	Oct-95	1.644	Jul-99	2.262		
Feb-92	1.046	Nov-95	1.772	Aug-99	2.601		
Mar-92	1.249	Dec-95	2.241	Sep-99	2.912		
Apr-92	1.418	Jan-96	3.448	Oct-99	2.570		
May-92	1.596	Feb-96	2.340	Nov-99	3.092		
Jun-92	1.685	Mar-96	2.746	Dec-99	2.120		
Jul-92	1.517	Apr-96	2.779	Jan-00	2.344		
Aug-92	1.939	May-96	2.214	Feb-00	2.610		
Sep-92	1.987	Jun-96	2.361	Mar-00	2.603		
Oct-92	2.743	Jul-96	2.646	Apr-00	2.900		
Nov-92	2.499	Aug-96	2.322	May-00	3.089		
Dec-92	2.332	Sep-96	1.853	Jun-00	4.406		
Jan-93	2.003	Oct-96	1.828	Jul-00	4.369		
Feb-93	1.634	Nov-96	2.652	Aug-00	3.820		
Mar-93	1.906	Dec-96	3.901	Sep-00	4.618		
Apr-93	2.224	Jan-97	3.998	Oct-00	5.310		
May-93	2.758	Feb-97	2.986	Nov-00	4.541		
Jun-93	2.119	Mar-97	1.780	Dec-00	6.016		
Jul-93	1.918	Apr-97	1.807	Jan-01	9.978		
Aug-93	2.121	May-97	2.122	Feb-01	6.293		
Sep-93	2.401	Jun-97	2.346	Mar-01	4.998		
Oct-93	2.066	Jul-97	2.145	Apr-01	5.384		
Nov-93	2.155	Aug-97	2.161	May-01	4.891		
Dec-93	2.385	Sep-97	2.515	Jun-01	3.738		
Jan-94	2.022	Oct-97	3.346	Jul-01	3.182		
Feb-94	2.470	Nov-97	3.266	Aug-01	3.167		

SCHEDULE JAB-R3

HAS BEEN

DEEMED HIGHLY CONFIDENTIAL

IN ITS ENTIRETY.

LACLEDE GAS COMPANY

Properly Design Incentive Mechanism
Case No. GR-2002-356

Gas Cost Incentive Compensation proposal from OPC. This plan is for the total cost of gas for all volumes purchased by Laclede for resale for the months Oct - Sep (Laclede's ACA period). OPC proposes to establish the following tier levels that will govern Laclede's opportunities for incentive compensation.

	Tier Levels		
Tier 1		<	$ 3.000
Tier 2	$ 3.001	<	$ 5.000
Tier 3	$ 5.001	<	

In order to be able to receive incentive compensation, Laclede must keep actual gas costs below the benchmark price plus fall within either Tier 1 or Tier 2.
Secondly, the benchmark price must fall within Tier 2 or Tier 3.

The Benchmark will be established by a volume weighted average of the previous 12-months weighted FOM indices. The weighted FOM indices will be determined by an evaluation of Laclede's actual reliance on various FOM indices utilized by Laclede.

For **illustrative** purposes, the Benchmark, based on NYMEX settlements, would have been as follows for the previous 5 years:

Oct - Sep	Benchmark
96 - 97	$ 2.725
97 - 98	$ 2.456
98 - 99	$ 2.114
99 - 00	$ 3.148
00 - 01	$ 5.494

According to the parameters of our proposal, Laclede's opportunities for incentive compensation would have been in the years 1999 - 2000 and 2000 - 2001.

Incentive Compensation mechanism:
If Laclede achieves actual prices in Tier 1 or Tier 2, the Incentive Compensation percent will equal 10% of the difference between the actual cost of gas and the benchmark.
However, once $5,000,000 of incentive compensation is achieved, which occurs when total cost reductions reach $50,000,000, the incentive compensation percent will be 1% of the remaining difference.

Transportation costs will be treated on a dollar-for-dollar pass through basis in the ACA process. No sharing of potential discounts will occur. Off-system sales and capacity release revenues will remain in base rates.

No incentive compensation will be given for reductions in actual gas costs if the reductions are tied to an increase in transportation costs, unless necessitated by significant changes in Laclede's system operating conditions.

LACLEDE GAS COMPANY

Properly Design Incentive Mechanism
Case No. GR-2002-356

When actual prices achieved by Laclede are above the benchmark or are in Tier 3, Laclede shall be subjcet to prudence review and any proper party may recommend a disallowance.

The term of this plan will be three (3) years. Further, there shall also be a market out clause that will allow any party the right to propose termination or modification of the program in case of significant impacts on the price of gas such as acts of God, change in federal or state law or regulation, or change in gas supply market or system operating conditions.

Attached are examples of the mechanism during the 1999 - 2000 and 2000 - 2001 ACA year.

SCHEDULE JAB-R4-4

HAS BEEN

DEEMED HIGHLY CONFIDENTIAL.