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January 5, 2001

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The Honorable Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102-0360

Re: Case No. GO-2000-394

Dear Judge Roberts:

Enclosed for filing please find the original and eight copies of a Response to Staff Recommendation.

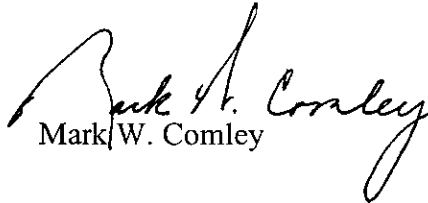
Would you please see that this filing is brought to the attention of the appropriate Commission personnel.

Thank you.

Sincerely,

NEWMAN, COMLEY & RUTH P.C.

By:


Mark W. Comley

MWC:ab

Enclosure

cc: Doug Micheel, Office of Public Counsel
Thomas R. Schwarz, General Counsel's Office
Michael C. Pendergast

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RESPONSE TO STAFF RECOMMENDATION

2. Laclede believes that there is absolutely no justification for terminating the third year of the PSP. As Staff notes at page 1 of its Recommendation, the PSP was authorized by the Commission for a term of three years, subject only to the Commission's retention of "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." (Report and Order, Case No. GO-98-484, p. 9). While the foregoing language indicates that revisions to the PSP may be made, it also clearly

establishes that the Commission must first determine that any such revision is necessary to correct a "major" deficiency. Consistent with this language, the Company has no objection to making pragmatic revisions to the PSP so long as they are reasonably necessary and calculated to correct an actual deficiency in the program.¹ Under no circumstances, however, does Laclede believe that there is any deficiency in the PSP that would warrant its elimination, as suggested by Staff.

3. Contrary to Staff's assertion that the PSP "is no longer appropriate in current market conditions," Laclede would submit that the need for effective and workable price protection programs has never been greater. Indeed, if any lessons are to be drawn from the unprecedented escalation in natural gas prices that has occurred over the past ten months, the importance of preserving and even expanding such programs must surely be one of them. Just as one does not permit a flood insurance policy to lapse at the very moment water is lapping at the door, the prudent caretaker does not and should not respond to soaring natural gas prices by abandoning the very programs that have been adopted to ameliorate the financial impact of such market conditions on utility customers.

4. This is particularly true when the program under consideration has produced the kind of extraordinary financial benefits that have been achieved by the Company under the PSP. Even though the unparalleled changes in market conditions during the first 90 days of the procurement period necessitated the Company's withdrawal from the Price Protection Incentive component of the PSP, Laclede has nevertheless continued its efforts under the program to obtain price protection for its customers and

¹ As it has in the past, the Company will continue to monitor market conditions and, if necessary, advise the Commission if it believes that any revisions, such as a supplementation of the funding levels under the program, are warranted by such conditions.

reduce the overall cost of obtaining such protection. As a result of these efforts, Laclede has managed to convert the \$4 million in funds initially authorized under the PSP into a portfolio of financial instruments that, as of the last three business days of December, had a realized value of \$11.5 million.

5. Moreover, while these results are extraordinary enough, they represent only a portion of the benefits produced under the PSP. By recognizing and taking advantage of opportunities presented by intra-monthly trading, the Company has also been able to achieve substantial reductions in the cost of obtaining price protection pursuant to the Overall Cost Reduction Incentive component of the program. As of the date of this Response, those cost reductions total more than \$17 million. In short, because of the Commission's foresight in approving the PSP and the Company's diligent efforts to optimize the operation of the program under very difficult circumstances, Laclede has managed to achieve approximately \$28.5 million in financial benefits from an authorized expenditure of \$4 million. Moreover, the prospect remains for additional benefits above and beyond this amount, subject, of course, to any future changes in market conditions that could modestly impact the total amount.

6. In view of this more than six-fold increase in the value of its hedging program, Laclede would submit that there is simply no basis for finding that the PSP has the kind of deficiencies that would warrant its elimination. To the contrary, by producing a level of benefits rarely seen on the regulatory landscape -- and by doing so under the most problematic of circumstances -- the PSP can only be viewed as a highly successful

tribute to this Commission's willingness to explore constructive and innovative solutions to the daunting challenges presented by a deregulated natural gas market.²

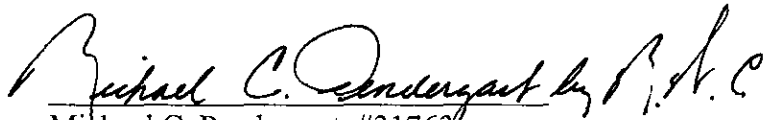
7. Because many of these benefits have been achieved in the recent past, and because there was no consultation between the Staff and Company prior to the filing of Staff's Recommendation, the Staff may not have been fully aware of the magnitude and nature of these benefits before it submitted its Recommendation. Now that the Staff is aware of such benefits, Laclede would strongly urge the Staff to not only reconsider its Recommendation, but affirmatively support a continuation of the PSP. Simply put, Laclede has difficulty conceiving how the Staff, or anyone else for that matter, could possibly explain to the Company's customers why an experiment that has worked so well should be being prematurely eliminated at the very time its results justify making it a permanent and integral component of the Company's gas supply management strategy.

8. In light of these considerations, there is simply no basis for Staff's Recommendation that the third year of the PSP be terminated. Such a Recommendation is wholly inconsistent with both the standards set forth in the PSP for when a revision to program may be made and with any objective evaluation of how well the program has worked to benefit Laclede's customers. Staff's Recommendation should accordingly be rejected.

² Since continuation of the PSP is so clearly warranted from a pure cost-benefit standpoint, Laclede does not believe it is necessary to dwell on the detrimental impact that elimination of the program, and its various authorizations and standards, would have on the future procurement of financial instruments. Suffice it to say that if a previously-approved hedging program can not survive its initial term even where it has produced benefits that far outweigh its costs, there can only be extreme uncertainty over whether any form or degree of hedging activity will ultimately pass regulatory muster.

WHEREFORE, for the foregoing reasons, Laclede respectfully requests that, consistent with terms of the PSP, the Commission issue an Order on or before February 15, 2001, specifying that the Company may continue operating under the PSP as previously approved by the Commission or, alternatively, take no action on Staff's Recommendation and permit the program to continue by its own terms following that date.

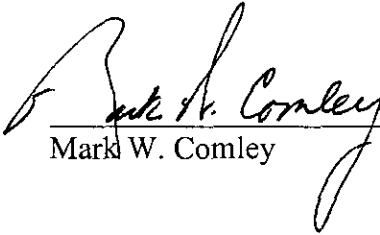
Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Michael C. Pendergast by P.A.C.", is written over a horizontal line.

Michael C. Pendergast #31763
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Associate General Counsel
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Response to Staff Recommendation has been duly served upon the General Counsel of the Staff of the Public Service Commission and the Office of the Public Counsel by placing a copy thereof in the United States mail, postage prepaid, or by hand delivery, on this 5th day of January, 2001.



Mark W. Comley