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April 4, 2001

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APR 04 2001
Missouri Public Service Commission

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 of Laclede Gas Company to Staff's Recommendation to Suspend.

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
Mark W. Comley

MWC:ab
Enclosure
cc: Hon. Vicky Ruth
Doug Micheel, Office of Public Counsel
Thomas Schwarz, General Counsel's Office
Michael C. Pendergast

FILED[3]

APR 04 2001

Missouri Public Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

RESPONSE OF LACLEDE GAS COMPANY
TO STAFF'S RECOMMENDATION TO SUSPEND

COMES NOW Laclede Gas Company ("Laclede" or "Company") and, pursuant to the Commission's March 29, 2001 *Order Directing Filing* in the above captioned case, submits the following Response to Staff's Recommendation to Suspend. In support of its Response, Laclede states as follows:

1. On March 21, 2001, Laclede filed First Revised Tariff Sheet No. 28-g in this case (hereinafter "the Revised Tariff Sheet"). The purpose of the tariff filing was to reduce the Required Price Protection volume percentages in the Company's Experimental Price Stabilization Program ("PSP") from 70% to 40% for the upcoming winter in order to permit a corresponding reduction in the Program's Target Strike Price ("TSP") and Catastrophic Price Level ("CPL"). In addition to submitting the Revised Tariff Sheet, the Company also filed on that same date a Motion for Expedited Treatment in which it requested that the Revised Tariff Sheet be made effective on April 1, 2001, or as soon thereafter as reasonably practical.

2. On March 27, 2001, the Staff filed a Recommendation to Suspend the Revised Tariff Sheet. In support of its Recommendation, the Staff argues that the tariff change proposed by the Company requires additional study and evaluation and should therefore not be approved without further proceedings. As discussed below, however, the reasons given by Staff do not provide a valid basis for suspending the Revised Tariff

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Sheet. To the contrary, Laclede would respectfully submit that the discussion set forth in Staff's Recommendation affirmatively supports the Company's position that reducing the Required Price Protection percentages from 70% to 40% is the right thing to do.

3. As previously noted, the entire purpose underlying the Company's tariff filing is to lower the targeted price (i.e., the TSP) at which Laclede will seek to obtain price protection for its customers this coming winter. As Staff acknowledges at page 2 of the Memorandum attached to its Recommendation, the TSP is simply a function of the amount of funding that may be spent to procure financial instruments and the amount of winter volumes for which such protection must be procured. Under this equation, any increase in funding, or any reduction in the volumes that are required to be protected, will have the effect of lowering the TSP to a more favorable level at which price protection will be sought. Fortunately, both the Company and Staff have been able to resolve their differences over the tariff filing that was filed by Laclede to address the funding aspect of this formula. As a consequence, Laclede filed a replacement tariff sheet on April 2, 2001 that will permit a $4 million increase in Program funding for the upcoming winter in compliance with the Commission's February 13, 2001 *Order Modifying Experimental Price Stabilization Program.* As Staff correctly notes at page 2 of its Memorandum, this increase in funding will permit the TSP for this coming winter to be reduced from $12.45 per MMBtu to $9.50 per MMBtu.

4. In view of this resolution of the funding issue, the only remaining matter before the Commission is whether the TSP for this coming winter should be lowered again, i.e., from $9.50 per MMBtu to $7.60 per MMBtu, by reducing the required volumes for which protection must be obtained from 70% to 40%. In urging a delay in

this proposed reduction, Staff implies that even at the lower price of \$7.60 per MMBtu, the TSP that would be produced by the Company's tariff filing may still be too high in that it "is generally greater than the financial instruments that Laclede purchased for last winter." (Staff Memorandum, p. 2). In light of this concern, Staff goes on to suggest that there is a need for it and Public Counsel " ... to analyze whether lower strike prices for smaller volumes would produce a better overall strategy." Id.

5. Based on its analysis of current market conditions, Laclede believes that the \$7.60 per MMBtu produced by the proposed reduction in the required Price Protection volume percentages would provide the best value for its customers, considering the level of price protection achieved for the money spent. Nevertheless, the Company is certainly willing to explore with both Staff and Public Counsel the possibility of seeking a further reduction in the TSP and these percentages in the future. In the meantime, however, it serves absolutely no purpose to leave the TSP and the Required Price Protection volume percentages where they currently are. To the contrary, if Staff believes a TSP of \$7.60 per MMBtu and a Required Price Protection percentage of 40% may be too high, then what possible justification can there be for a suspension recommendation that would leave in place an even higher TSP and Required Price Protection percentage of \$9.50 per MMBtu and 70%, respectively? In reality, the Company's tariff proposal does nothing more than move the TSP and the Required Price Protection percentage in the very direction that Staff asserts they should be heading in its Recommendation. Moreover, it alters the Required Price Protection percentage incentive in an even less dramatic way than last year when the minimum volume requirement was completely eliminated -- a modification which contributed to the Company's ability to

produce more than $28 million in financial benefits. Accordingly, to the extent there is any merit in Staff's concerns regarding these elements of the PSP, they only reinforce the need to take the actions that the Company has proposed in its tariff filing.

6. None of the other arguments presented by Staff in support of its Recommendation can obscure the basic fact that the Company's tariff filing does nothing more than provide a remedy for a problem that Staff itself has recognized needs to be addressed. Indeed, given this central consideration, the other arguments raised by Staff are, in Laclede's view, completely extraneous and irrelevant to a proper determination of whether the Company's tariff filing should be allowed to go into effect. For example:

(a) At pages 1-2 of its Memorandum, the Staff suggest that "it is as likely that delay in the current volatile market will work to the customers' advantage as much as the customers' disadvantage." It is not at all clear to Laclede what Staff even means by this statement. Suffice it to say, however, that delay will indeed disadvantage customers if the price for financial instruments rise as they did around this time last year. Under such circumstances, the ability to obtain price protection at the lower price levels proposed by the Company could be irretrievably lost. Conversely, if prices fall, the structure of the PSP will afford the Company an opportunity and an incentive to do whatever it can to take advantage of those falling prices on behalf of its customers. In short, there is very little, if anything, to be gained by customers as a result of a delay in approving the Company's tariff filing and much to be lost.

(b) At page 3 of its Memorandum, Staff asserts that approving the Company's tariff on an expedited basis (or even within the normal 30 day period) is inappropriate because the Company did not discuss its proposed reduction in the 70% volume requirement with Staff prior to making its filing. Laclede did, however, advise counsel for Staff that it intended to make such a filing at least several days before the Company submitted the Revised Tariff Sheet. And since that time the Company has repeatedly indicated its willingness and desire to discuss this matter with the parties. Moreover, the nature and timing of the Company's tariff filing should have come as no surprise to Staff given the Company's statements at the February 2, 2001 hearing in this case which foreshadowed the need to make a reduction in the 70% volume requirement (*See* Tr. 49-50) and the experience of last year when an even more dramatic relaxation of the volume requirement was necessitated by market conditions. Indeed, since Staff regularly follows the market for natural gas financial instruments, it should have been well aware all along of the impact that market conditions were having on the achievement of a reasonable TSP and of the need to take corrective action.

(c) At page 2 of its Memorandum, the Staff asserts that the Company's interpretation of the PSP has "encouraged the Company to engage in activities that were detrimental to its customers." The Staff then goes on at page 4 to provide several examples of this allegedly harmful activity, all of which involve the Company's sale of financial instruments before they expired during the last three business days of the month. According to Staff, this "early" trading activity by the Company was detrimental to Laclede's customers in that it cost them approximately $5 million of additional gains that would have presumably been realized had the Company simply held onto the instruments until they expired. Laclede has no idea how the Staff even derived this figure. Any suggestion, however, that ratepayers were disadvantaged by the Company's decision to sell options prior to their expiration is simply wrong. To the contrary, the Company has calculated that had it actually followed the "buy and hold" approach suggested by Staff (i.e., simply purchased $4 million in financial instruments and then held them until they expired) it would have achieved less than $13 million in gains under the Program this winter -- an amount that is less than half of the gains that were actually achieved by the Company. In any event, the kind of trading activity alluded to by Staff occurred during a period of the Program when there was no minimum volume requirement in effect and hence no obligation to hold a certain amount of financial instruments during the last three business days. Since the Company's tariff filing in this case would continue to maintain a minimum volume requirement, albeit at a lower level, Staff's discussion of these prior trading activities on the part of Laclede has even less relevance to the instant case.

7. In view of these considerations, Laclede believes that it makes far more sense, for both the Company and its customers, to permit the Revised Tariff Sheet to go into effect as Laclede has proposed. Such an approach will permit Laclede to continue its efforts to line-up price protection for its customers next winter at prices more favorable than those that would prevail in the absence of the filing. At the same time, it will not preclude the parties from examining, as Staff suggests, the issue of whether even lower strike prices on even fewer volumes might be appropriate for this winter.

WHEREFORE, for the foregoing reasons, Laclede respectfully requests that the Commission issue its Order rejecting Staff's Recommendation to suspend the Revised Tariff Sheet filed by Laclede on March 21, 2001 and permitting such Tariff Sheet to become effective as soon as reasonably practical.

Respectfully submitted,

Michael C. Pendergast by M.W.C.

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Response to Staff's Recommendation has been duly served upon the General Counsel of the Staff of the Public Service Commission, Office of the Public Counsel and all parties of record to this proceeding by placing a copy thereof in the United States mail, postage prepaid, or by hand delivery, on this 4th day of April, 2001.

Mark W. Comley

Mark W. Comley